Zara Consulting1

WORKING CAPITAL & RECEIVABLES

DSO strategy. Cash with discipline.

A practical approach to collections, credit risk and US GAAP alignment.

Technical service overview / October 2026

01 **Measure consistently**

02 **Fix the causes**

03 **Protect credit quality**

04 **Verify cash outcomes**

More reliable cash conversion. Better credit decisions.

DSO improvement connects commercial policy, operational execution and accounting quality.

01

Cash availability

Shorter collection cycles can release working capital and reduce funding needs, assuming sales and other conditions remain stable.

02

Customer economics

Credit terms should support profitable relationships. The lowest possible DSO is not automatically the best commercial outcome.

03

Financial discipline

A lower DSO does not itself create revenue or profit. Sustainable results require actual collections and sound credit decisions.

OUR ROLE

ZaraConsulting1 helps diagnose the causes, design controls and establish a practical improvement program.

One indicator needs one documented definition.

DSO is a management KPI. US GAAP does not prescribe a single DSO formula.

Core calculation	DSO = trade accounts receivable ÷ comparable credit sales × days in the measurement period.
Balance convention	Use a closing balance for a snapshot or average balances for a period measure. Label the method and apply it consistently.
Comparable scope	Align entities, currencies and sales periods. Document treatment of taxes, cash sales, returns and unbilled balances.

BENCHMARK CAUTION

APQC uses average gross AR divided by annual gross sales per day, excluding unbilled receivables. [1]

An illustrative calculation yields approximately 48 days.

Assume closing trade AR of $125,000 and annual credit sales of $950,000 over 365 days.

48.03

DAYS

$125,000 ÷ $950,000 × 365

Calculation

$125,000 ÷ $950,000 × 365 = 48.03 days. This is a closing-balance DSO estimate.

Interpretation

Against uniform 30-day terms, the 18-day gap is a diagnostic signal. It is not an invoice-level measure of lateness.

Next analysis

Inspect due-date aging and customer terms. Sales timing and the mix of customers can explain part of the gap.

METHOD NOTE

For the average-balance method, replace closing AR with a representative average of balances.

Ten fewer DSO days can release about $260,000.

Illustration: $9.5 million of annual credit sales, constant sales mix and a reduction from 55 to 45 days.

$260k

ESTIMATED CASH RELEASE

$9.5m annual sales / 10 days

Cash sensitivity

$9,500,000 ÷ 365 × 10 = $260,274 of estimated working capital release.

Funding sensitivity

At an illustrative 8% annual funding rate, the equivalent annual funding benefit is approximately $20,822.

What the estimate means

This is a balance-sheet sensitivity, not incremental revenue, guaranteed cash recovery or a recurring annual release.

PLANNING ASSUMPTION

Validate collectibility, seasonality and the achievable timing of collections before using the estimate in a forecast.

A better DSO can conceal a weaker receivables book.

Compare trends with collections, aging and the underlying movement in trade AR.

Sales and mix	Rapid growth can lower the ratio before invoices become due. Seasonality or declining sales can move it in the opposite direction.
Accounting movements	Allowances may reduce net-AR DSO. Write-offs reduce gross AR, and qualifying receivable sales can remove balances without customer collection.
Analytical response	Track gross trade AR, disclose the chosen KPI basis and bridge noncash movements, factoring and scope changes.

DIAGNOSTIC RULE Distinguish a collection improvement from a change in the denominator or the reported asset base.

Collection performance starts before an invoice is overdue.

Assign accountability across the full process, rather than leaving every delay with the collections team.

1. **Before billing** — Approve credit, confirm payment terms and validate customer master data. Capture purchase-order and acceptance requirements.
2. **Billing and acceptance** — Issue accurate invoices promptly after the appropriate billing trigger. Attach evidence and confirm delivery through required portals.
3. **Collection and application** — Resolve disputes, track commitments and apply receipts promptly. Reconcile exceptions between the subledger, GL and bank.

SHARED OWNERSHIP Sales, operations, billing, AR and treasury each own specific causes of delayed conversion.

Credit limits should reflect risk and commercial value.

A controlled policy gives sales a workable decision framework and protects the company from unmanaged exposure.

01

Risk assessment

Review financial capacity, payment history and concentration. Refresh limits when material events or adverse payment patterns emerge.

02

Terms and exceptions

Define approval levels for credit limits, extended terms and overrides. Record reasons, expiry dates and the accountable approver.

03

Proportionate response

Consider deposits, staged billing, security or shipment holds where appropriate. Assess relationship economics before ending an account.

DELIVERABLE

A credit approval matrix, customer segmentation and a documented exception-review process.

An invoice that cannot be approved cannot be collected.

Remove preventable friction between delivery, invoicing and customer acceptance.

1. **Master data**
   Validate the legal entity, billing contact, tax details, purchase order and customer portal requirements.

2. **Invoice evidence**
   State the agreed due date and payment instructions. Include acceptance records or delivery evidence where required.

3. **Exception control**
   Track rejected invoices and time to correction. Assign owners and distinguish billing delay from payment delinquency.

CONTROL PRINCIPLE

Invoice timing and revenue recognition follow different rules. Billing does not by itself establish earned revenue. [2, 3]

Prioritize by exposure, risk and the reason for delay.

Collections become more effective when the action fits the customer and the issue.

1. **Before the due date**
   Confirm invoice receipt and resolve missing documentation. Use proportionate reminders and convenient payment options.

2. **After the due date**
   Assign an owner, obtain a specific payment commitment and record the reason for delay. Escalate broken promises.

3. **Persistent delinquency**
   Review disputes and credit risk separately. Consider holds, negotiated plans or specialist recovery under the approved policy.

OPERATING RHYTHM

Review high-value overdue accounts and broken promises weekly, with a clear next action and date.

Separate operational disputes from credit deterioration.

A disputed invoice and an insolvent customer need different actions and potentially different accounting judgments.

01

Issue classification

Code pricing errors, delivery failures, unauthorized deductions and documentation gaps. Track amount, age and owner.

02

Resolution discipline

Agree on response dates and approval authority. Coordinate sales, operations and finance instead of repeatedly contacting the customer.

03

Accounting judgment

Evaluate whether an adjustment is a price concession or a credit loss. Do not automatically classify every short payment as bad debt.

REFERENCE

ASC 606 addresses the transaction price. ASC 326 addresses credit losses on in-scope assets. [2, 3, 4]

Early-payment discounts have a measurable price.

Illustration: 2/10, net 30 gives a 2% discount for paying 20 days earlier.

37.2%

SIMPLE ANNUALIZED COST

2/10, net 30 / 20 days earlier

Annualized cost

2% ÷ 98% × 365 ÷ 20 = approximately 37.2% simple annualized cost of accelerating the net proceeds.

Decision criteria

Compare the discount cost with funding savings, avoidable credit losses and strategic value. Include margin and customer behavior.

Revenue accounting

Early-payment discounts are variable consideration under ASC 606. Estimate the expected discount and apply the constraint as required.

ILLUSTRATION, NOT A RECOMMENDATION

At 8%, funding savings alone for a 20-day acceleration are far below a 2% discount. [4]

The collection KPI and the financial statements serve different purposes.

Relevant US GAAP guidance supports accurate recognition, measurement and presentation.

01

ASC 606

Assess the contract and recognize revenue as performance obligations are satisfied. Evaluate collectibility and variable consideration.

02

ASC 326-20

Estimate expected credit losses on in-scope trade receivables and contract assets. Maintain a supportable allowance.

03

ASC 860

Evaluate receivable transfers before concluding that factoring qualifies as a sale rather than a secured borrowing.

BOUNDARY

DSO is an operational indicator. It does not determine revenue recognition or replace a credit-loss assessment. [2–8]

Unbilled does not always mean a contract asset.

Classification depends on the right to consideration, not simply whether an invoice has been issued.

Receivable	A right is unconditional when only the passage of time is required before payment is due. An unbilled amount can still be a receivable.
Contract asset	The right depends on a condition other than time, such as additional performance. Assess related credit losses under ASC 326-20.
Management reporting	Track billing delays and contract assets separately from billed-AR DSO. Reconcile the KPI scope to the financial records.

TECHNICAL REFERENCES

ASC 606-10-45-3 and 45-4. Classification requires review of the contractual rights. [2, 3]

An aging report is an input, not the entire estimate.

CECL generally considers lifetime expected credit losses using relevant history, current conditions and supportable forecasts.

Portfolio assessment	Group assets with similar risk characteristics. Evaluate assets separately when they do not share relevant characteristics.
Estimation and review	Use an appropriate method, such as an adjusted aging matrix. Assess customer-specific deterioration and document management judgment.
Accounting entries	An allowance increase generally records credit loss expense. A write-off uses the allowance when a balance is deemed uncollectible.

DSO IMPLICATION An allowance entry or a write-off does not collect cash. Keep these movements distinct in performance reporting. [8]

ASU 2025-05 simplifies eligible CECL estimates.

Applies to current AR and current contract assets from ASC 606 transactions. Adoption is prospective.

01

All entities

An optional practical expedient allows current conditions at the balance-sheet date to remain constant over the asset’s remaining life.

02

Nonpublic entities

If the expedient is elected, a further policy election permits consideration of subsequent collections in estimating expected losses.

03

Effective date

Annual periods beginning after December 15, 2025, including interim periods within those years. Early adoption is permitted.

IMPLEMENTATION

Confirm eligibility, election details and required disclosures. This relief does not eliminate the allowance assessment. [5]

A reliable DSO starts with reconciled receivables.

A repeatable close prevents accounting errors from distorting credit and cash decisions.

Reconcile	Tie customer balances to the control account. Investigate unapplied cash, duplicate invoices, credits and unusual debit or credit balances.
Validate	Review cut-off, due dates, aging and subsequent receipts. Reconcile FX, write-offs and transfers in the movement schedule.
Approve	Separate credit-note and write-off approval from collection activity. Retain evidence supporting estimates and material adjustments.

CONTROL EVIDENCE A signed reconciliation, exception log and allowance rollforward linked to the general ledger.

Liquidity support is different from customer collection.

Evaluate the economics and accounting of receivable transfers before presenting them as a DSO success.

01

Economic assessment

Compare fees, recourse, customer notification, concentration limits and operational obligations.

02

ASC 860 assessment

A transfer is not automatically a sale. If sale conditions are not met, account for a secured borrowing and retain the receivable.

03

Transparent reporting

Identify transferred receivables and explain the effect on DSO and cash. Show operating collection performance separately.

REFERENCE

ASC 860-10-40-5 and ASC 860-30-25-2. The terms and continuing involvement matter. [6, 7]

A compact dashboard connects results with causes.

Every metric needs an owner, a definition and an agreed review frequency.

Cash and exposure	Gross-AR DSO, overdue share, customer concentration and collections against the cash forecast.
Execution quality	Billing delay, invoice rejection rate, dispute age and payment promises kept.
Credit quality	Aging migration, write-offs and allowance movements. Review alongside changing sales and customer mix.

REVIEW CADENCE Weekly operational exceptions. Monthly trends, reconciliations and management decisions.

A proposed 90-day program builds a repeatable process.

The sequence is illustrative. Scope and timing depend on data quality, resources and the causes identified.

1 **Days 1–30: diagnose**

Reconcile the baseline, analyze major overdue balances and map causes. Prioritize recoverable cash and urgent control gaps.

2 **Days 31–60: implement**

Pilot collection routines, repair billing exceptions and clarify credit approvals. Establish the dashboard and account ownership.

3 **Days 61–90: embed**

Review results, refine the process and transfer ownership. Document controls and establish regular management reviews.

SUCCESS CRITERIA

Agree on realistic targets and measure cash collections, overdue exposure and adoption of the new process.

A focused engagement with concrete deliverables.

Support can range from a diagnostic review to implementation and ongoing management follow-up.

01

Diagnostic package

DSO methodology, reconciled AR baseline, customer and aging analysis, and prioritized cash opportunities.

02

Operating improvements

Credit policy, collection workflow, dispute process and management reporting with named owners.

03

Accounting coordination

Allowance support and reconciliation routines, coordinated with your CPA or auditor for applicable US GAAP conclusions.

NEXT STEP

Discuss your receivables profile, current constraints and the decisions management needs to make.

Sources and accounting references

Primary standard-setter material and specialist accounting guidance. Sources checked October 15, 2026.

[1] APQC	Days sales outstanding: definition and benchmark method.	OPEN
[2] Deloitte DART	ASC 606-10-45-4: receivables and unconditional rights.	OPEN
[3] Deloitte DART	ASC 606-10-45-3: contract assets and credit-loss assessment.	OPEN
[4] Deloitte DART	ASC 606 variable consideration, including early-payment discounts.	OPEN

READING THE GUIDANCE

The FASB Codification is authoritative. ASUs communicate amendments. Apply the relevant guidance to the entity’s facts.

Sources and accounting references / continued

Primary standard-setter material and specialist accounting guidance. Sources checked October 15, 2026.

[5] FASB	ASU 2025-05: current AR and contract assets, CECL elections and effective date.	OPEN
[6] Deloitte DART	ASC 860: factoring and continuing involvement.	OPEN
[7] Deloitte DART	ASC 860-30-25-2: transfers accounted for as secured borrowings.	OPEN
[8] FASB	Credit Losses project: expected-loss principles and scope.	OPEN

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Zara Consulting1

A clearer view of receivables.
A practical path to better cash conversion.

Discuss your AR profile, overdue balances and process constraints.
We can help define the priorities and an appropriate scope of support.

LET’S DISCUSS YOUR PRIORITIES

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