FACTORING AND QUICKBOOKS: 
LEARN HOW THEY CAN WORK TOGETHER 
TO HELP YOUR BUSINESS 

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Can QuickBooks Handle Factored Accounts Receivable?

HOW CAN FACTORING HELP MY BUSINESS?

Factoring is a great solution for business owners to get working capital to operate their business efficiently and with the peace of mind of knowing they’ll get paid.

For example, let’s say you manufacture furniture and sell to retail customers. A customer places an order for ten sofas. Consequently, you determine the customer is credit-worthy, order raw materials, manufacture, ship, and send an invoice. Now, you need more cash to buy raw materials and pay employees to manufacture more furniture.

But there’s a big potential problem. While you give the customer Net 30 days to pay the invoice, the customer might pay within 45, 60, 90 days or doesn’t pay. However, you need the cash to restock inventory and pay vendors. This is where a factor helps.

FACTORING BENEFITS

- When a customer places an order, the factor makes sure the customer is credit-worthy to pay.
- The factor keeps records of payments. So, you always know which customers have paid and which haven’t paid. And, the factor collects payments from customers, so you don’t have to.
- When the sofas are shipped ( invoiced), the factor could advance a percentage of the invoice amount. So, you can put the cash to work right now…instead of waiting for the customer to pay the invoice. Once the customer pays the invoice, the factor can remit you the balance of the undisputed net purchase price. If the customer doesn’t pay the invoice when it’s due, the factor follows up on payment. Not you.
- If the customer goes bankrupt, the factor pays the full undisputed amount owed. So, with factoring, you have the peace of mind of getting paid.

DEFINITION OF FACTORING

Factoring is an agreement between a factor and supplier (you) whereby the factor purchases your accounts receivable and, in non-recourse arrangements, assumes responsibility for your customers’ financial inability to pay. (The customer is typically a retailer, but could be a wholesaler or a manufacturer too.) If a customer is financially unable to pay, the factor makes payment on undisputed, approved invoices. The factor extends credit to the customers, collects the accounts receivable from customers and performs the related bookkeeping functions. As needed, the factor may also provide cash advances to you against open receivables prior to collection.
SIX BUSINESS PROBLEMS SOLVED WITH FACTORING

Your products are a hit and you begin selling to an increasing number of customers. Maybe your company started small, but you have added more sales representatives (employees or independent contractors) and are adding new customers every day. You’re proud of the success and delighted with new orders—but the new growth has also caused other problems:

Problem #1: Slow Payment

Although your invoices clearly state payment terms are Net 30 days, some customers take 45, 60, 90 days or longer to pay those invoices.

Factoring Solution:
The factor can advance funds prior to collection of these invoices, so you can put those funds to work for your business – right now.

Problem #2: Getting Credit Information on Unknown Customers

While you’re pleased with receiving orders from new customers, you don’t know much about them. You’re nervous about shipping large dollars of products to customers on open credit terms and cannot obtain sufficient information from the customer and/or other credit information sources deemed reliable.

Factoring Solution:
The factor does your credit due-diligence so you can ship with confidence knowing you will get paid.

Problem #3: Making Collection Calls

Your sales representatives don’t like making collection calls to their customers because they feel it hurts their relationships with the customers—and you’re too busy managing the business to make the calls. You consider hiring an employee to handle the increased accounts receivable transactions and making collection calls, but can you afford it?

Factoring Solution:
The factor follows up on payments. Consequently, you don’t have to! In addition, this cost is included in the factoring commission.

Problem #4: Bad Debt Losses

Unfortunately, in the past you lost money because several customers failed to pay their invoices and eventually filed for bankruptcy. You figure the chances of collecting from the bankruptcy court are slim, and spending the time and resources to make a claim would likely cost more time and money than you would ever get back.

Factoring Solution:
When a factor approves your undisputed invoices, the factor pays you for the invoices even if the customer files for bankruptcy.
Problem #5: Liquidity Crunch

The slow payment of some of your customers causes another problem - a cash crunch. You have already paid for the raw materials, labor, variable/fixed manufacturing overhead, freight expenses and certain fixed selling and manufacturing costs----yet payment for your product might not arrive for months.

Factoring Solution:
The factor promptly follows-up on past-due invoices, speeding up collections and providing information regarding why certain invoices aren’t being paid within terms. If you need cash prior to collections, the factor may advance funds so you can put those funds to work now.

Problem #6: The Time and Hassle of Accounting

Using QuickBooks, you probably do your best to keep track of what (and how much) customers owe you. But trying to keep detailed records of payments is taking a lot of time and keeping you from doing what you do best. You started your business making and selling a great product---not analyzing accounts receivable, credit checking and managing working capital!

Factoring Solution:
The factor handles the bookkeeping on accounts receivable. From depositing the check, to maintaining and adjusting balances, marking invoices as paid, and recording and providing detailed transaction information. These functions are handled by the factor, freeing up your time to focus on running the business.

SOUNDS GREAT – NOW WHAT?

Beware when your CPA, internal bookkeeper/accountant, or another “trusted advisor” provides this information: “QuickBooks wasn’t designed for factoring accounts receivables.”

Or worse, these “trusted advisors” don’t understand factoring, and recommend a complicated work-around solution increasing your workload, doesn’t work in real-life situations and doesn’t achieve the benefits of entering into a non-recourse factoring arrangement.

The accounting for non-recourse factored accounts receivables isn’t as complicated or cumbersome as CPAs, internal accountants/bookkeepers and “trusted advisors” make it to be! And, if not set up and used properly, you have a big mess.

Importantly, QuickBooks can handle accounting for factored accounts receivable! Especially for non-recourse factoring, which is the arrangement we’re focused on.
WHAT YOU NEED TO KNOW ABOUT QUICKBOOKS AND FACTORING

When used in the traditional fashion, QuickBooks relies on the normal flow of:
   Invoice to Customer > Record Payment > Make Deposit

When it comes to tracking non-recourse factored receivables, why use the same flow in QuickBooks? Many businesses are literally spending double the time and/or expense necessary keeping track of their non-recourse factored invoices, and also paying the factor to perform most of the same functions.

Instead, use the information provided in the factor’s client accounting statement, factoring agreement, daily transactions and other critical information combined with our unique insider perspectives, experience, expertise and results – and avoid all the extra work involved in the traditional QuickBooks flow discussed above.

Obviously, there are certain accounting transactions involved in tracking non-recourse factored accounts receivables invoices and related transactions because your financial statements must be reconciled to the factor’s client accounting statements.

**Good news** - there ARE some awesome value-added shortcuts in QuickBooks, automatic interface capabilities (depending on the factor selection), and secrets your business can do to streamline accounting and accounts receivable transactions, reduce costs and enable focusing on other business priorities.

While there are some generally-accepted factoring procedures, each factor handles certain factoring and accounts receivables accounting transactions slightly differently, provides factoring agreements with different advance rates, pricing, recourse or non-recourse arrangements and other critical considerations. Since QuickBooks is non-GAAP compliant, many factors recommend their clients (in a borrowing arrangement) switch from QuickBooks to another accounting package.

Consequently, If you use QuickBooks for accounting (as millions of businesses do!) and are considering or already using non-recourse factoring (as many businesses should!), we evaluate factor selection and/or implement the seamless recording of daily/monthly accounting and factoring transactions smoothly and efficiently.

CONTACT US TODAY TO DISCUSS THE BEST SOLUTION FOR YOUR SITUATION!

Draw upon the decades of expert senior financial executive management and consulting experience Ron Downs and Scott Gregory have with factoring and QuickBooks, respectively.

Contact us today to discuss the specifics of your situation – for value-added selection and the “best” QuickBooks solution of non-recourse factored receivables.
ABOUT RON DOWNS, Managing Director of THE DOWNS GROUP, LLC:

Ron is a Senior Financial Executive with 35+ years of strong management and consulting experience at the corporate, group and business unit levels with many public and privately-held companies facing critical issues including industry consolidation, technology changes, governmental regulations, distribution channel changes, sales and margin erosion, asset re-deployment and global strategic alliances. Ron has excellent, long-standing working relationships with many attorneys, auditors, asset-based lenders, bankers, CEOs, CFOs, CIOs, CMOs, distributors, factors, PEGs, purchase order lenders, retailers, suppliers, and extensive industry contacts.

The Downs Group, LLC provides senior financial management consulting, investment banking, operations analysis and outsourced c-level executive services to banking, business, factoring, investment, legal and private equity entities.

ABOUT SCOTT GREGORY, QUICKBOOKS EXPERT:

Scott has been helping small businesses and organizations track and manage their finances for over twenty-five years.

Widely known for his practical and easy-to-understand approach to teaching QuickBooks and financial management, Scott brings his QuickBooks certifications, accounting and CFO skills to his clients in such areas as: manufacturing, service-based and wholesale/distribution.

Scott publishes a leading blog on QuickBooks accounting software that provides tips and insight to thousands of QuickBooks users each month. It has been recognized as a “Top 50” blog for accounting insights and knowledge.