
How to Record Invoice Factoring Transactions on QuickBooks



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INTRODUCTION

Disclaimer: The information available in this document is for informational purposes only and not for the purpose of providing accounting advice. You should contact your accountant to obtain professional advice regarding accounting treatment of factoring transactions.

Our Example

We'll use the following transaction settings to work on our data entry examples in this document:

Factored invoice amount: \$10,000

Your company's factoring advance rate: 80%

Your company's factoring discount fees: 3%

Your uncollectible debt estimate: 5% (amount of invoices your company projects will be uncollectible)

A few notes:

- We used QuickBooks PC Desktop Pro 2015 version for the sample transactions screenshots. Menu items and functions may be located on a different place in other QB PC or Online versions. You may need to look for them.
- You are free to download this document, print it, distribute it, and post its content in your website, blogs or social media accounts as long as you attribute the work to Gateway Commercial Finance, LLC and link to our website <http://gatewaycfs.com>
- We are open to suggestions to improve the content of this document. If you would like to contribute your thoughts or have a different idea of how transactions should be recorded please email us to gateway@gatewaycfs.com. Contributions included will be properly referenced.

Enjoy!

CHART OF ACCOUNTS: ACCOUNTS YOU'LL NEED

Existing accounts

The following accounts very likely already exist with a similar name in your QuickBooks chart of accounts and are already in use. If they don't exist you may need to create them:

- Bank Checking Account (Type: Current Assets – Bank Account)
- Accounts Receivable (Type: Current Assets – Accounts Receivable)
- Sales Discounts (Type: Income)
- Bad Debts Expense (Type: Expenses)
- Allowance for Bad Debts (Type: Current Assets) - If your company uses Allowance for Bad Debts Method to record uncollectible debt estimates instead of using a Direct Write-Off Method for uncollectible debts.(*)

New accounts for factoring

The following accounts need to be created to record factoring transactions:

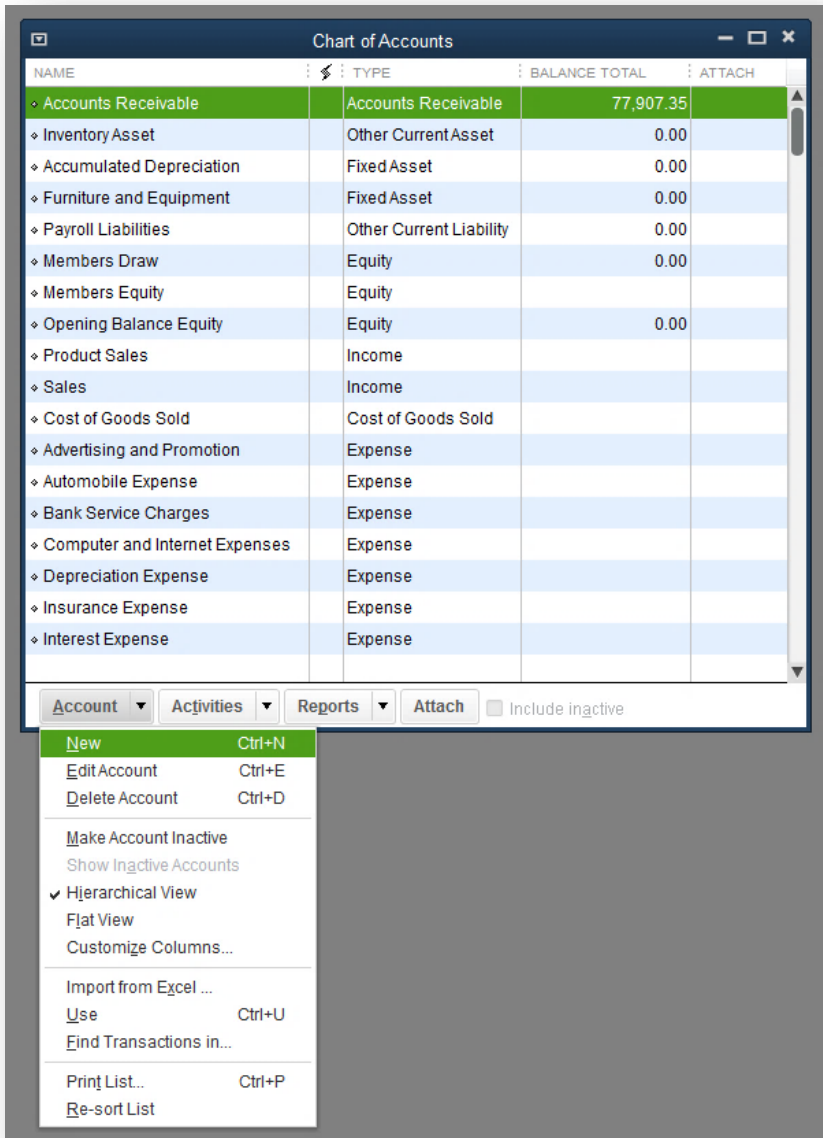
- Factoring Holding Account (Type: Current Assets – Bank Account)
- Due From Factor (Type: Other Current Assets)
- Factoring Discount Fees (Type: Expenses)
- Factoring Administrative Fees (Type: Expenses)
- Factoring Expenses (Type: Expenses)
- Factoring Recourse Liability (Type: Other Current Liabilities) – Only if your company is Factoring With Recourse

(*)Note: See Annex A for detailed explanation of accounts and Allowance for Bad Debts and Direct Write-off Methods

STEP 1: ADDING NEW ACCOUNTS TO THE CHART OF ACCOUNTS

To add new accounts to the Chart of Accounts you'll need to go to Lists > Chart of Accounts.

When the Chart of Accounts window opens go to "Account" on the bottom menu and click on "New".



Creating Accounts Needed for Factoring

Factoring Holding Account

The screenshot shows the 'Edit Account' window in QuickBooks. The window title is 'Edit Account'. At the top, there is a grid icon and a dropdown menu for 'Account Type' set to 'Bank'. Below this, the 'Account Name' field contains 'Factoring Holding Account'. There is a checkbox for 'Subaccount of' followed by an empty dropdown menu. An 'OPTIONAL' section contains a 'Description' field with the text 'Balance of factored and non-factored invoices held at factoring company's reserve account'. Below the description are fields for 'Bank Acct. No.', 'Routing Number', and 'Tax-Line Mapping' (set to '<Unassigned>'). A 'Change Opening Balance...' button is present with a tooltip: 'You can change the opening balance in the account register.' At the bottom of the optional section, there is a check icon, a checkbox for 'Remind me to order checks when I reach check number', and a 'Learn more' link. At the very bottom of the window, there is a checkbox for 'Account is inactive', a 'Set Up Bank Feeds...' button, a 'Save & Close' button, and a 'Cancel' button.

Due From Factor

Account Type: Other Current Asset

Account Name: Due From Factor Select from Examples

Subaccount of: [dropdown]

OPTIONAL

Description: Balance due from factoring company for sale of receivables pending debtor payment

Account No.: [text box]

Tag-Line Mapping: <Unassigned> How do I choose the right tax line?

Enter Opening Balance... Should I enter an opening balance?

Save & Close Save & New Cancel

Factoring Discount Fees

Account Type Expense

Account Name Factoring Discount Select from Examples

Subaccount of

OPTIONAL

Description Discount rate paid to factoring company for factoring services

Note

Tax-Line Mapping <Unassigned> [How do I choose the right tax line?](#)

Save & Close Save & New Cancel

Factoring Administrative Fees

Account Type Expense

Account Name Factoring Admin Fees

Subaccount of

OPTIONAL

Description Administrative costs paid to factoring company for services


Note

Tax-Line Mapping <Unassigned> [How do I choose the right tax line?](#)

Account is inactive

Save & Close Cancel

General Factoring Expenses

 Account Type Expense

Account Name Select from Examples

Subaccount of

OPTIONAL

Description

Note

Tax-Line Mapping <Unassigned> [How do I choose the right tax line?](#)

Save & Close Save & New Cancel

Factoring Recourse Liability Account

The screenshot shows a software window titled "Add New Account". At the top left, there is a grid icon and the text "Account Type" followed by a dropdown menu showing "Other Current Liability". Below this, the "Account Name" field contains "Factoring Recourse Liability" and a "Select from Examples" button. A "Subaccount of" dropdown menu is empty. A section labeled "OPTIONAL" contains a "Description" field with the text "Recourse obligation estimate for uncollectible factored invoices", an "Account No." field, a "Routing Number" field, and a "Tax-Line Mapping" dropdown menu set to "<Unassigned>". To the right of the "Tax-Line Mapping" dropdown are two blue links: "How do I choose the right tax line?" and "Should I enter an opening balance?". Below the "Tax-Line Mapping" dropdown is a button labeled "Enter Opening Balance...". At the bottom of the window are three buttons: "Save & Close" (highlighted in blue), "Save & New", and "Cancel".

STEP 2: SELLING INVOICES TO THE FACTORING COMPANY

1- Recording the Sale of an Invoice

Whenever your factoring company buys one of your company's invoices and wires the invoice advance agreed to your bank account you can record this transaction as follows:

Our example= \$10000 invoice, 80% advance rate = \$8000 advance.

Recording the sale of a receivable

Account	Debit	Credit
Bank Checking Account	8000	
Due From Factor	2000	
Accounts Receivable		10000

Recording this transaction on Quickbooks

- Go to the invoice list and choose the invoice sold.

UNBILLED		UNPAID		PAID				
0.00	86,854.75	30,294.90	0.00	0 TIME & EXPENSES	0 PAID LAST 30 DAYS			
	15 OPEN INVOICES	5 OVERDUE						
CUSTOMER:JOB	All	TYPE	All	STATUS	All	DATE	All	
CUSTOMER	TYPE	NUMBER	DATE	DUE DATE	AMOUNT	OPEN BALANCE	LAST SENT DATE	STATUS
Gateway Commercial Finance	General Journal	4	4/14/2015		-8,000.00	-8,000.00		Open
Broke Corp	Invoice	2015-13	4/9/2015	6/8/2015	3,353.00	3,353.00		Open
Gateway Commercial Finance	General Journal	2	4/1/2015		8,000.00	8,000.00		Open
Tom Tom	Invoice	2015-12	3/21/2015	5/20/2015	2,137.55	2,137.55		Open
Top Taste	Invoice	2015-11	3/21/2015	5/20/2015	174.00	174.00		Open
Carrot Inc	Invoice	2015-10	3/19/2015	5/18/2015	10,000.00	10,000.00		Open
Walmart	Invoice	2015-9	3/19/2015	5/18/2015	2,223.10	2,223.10		Open
KantPay Corp	Invoice	2015-8	3/16/2015	4/9/2015	12,233.00	12,233.00		Overdue
Freud LLC	Invoice	2015-7	3/13/2015	5/12/2015	33,265.00	33,265.00		Open
The Boys	Invoice	2015-6	3/13/2015	5/12/2015	5,269.65	5,269.65		Open
Target	Invoice	2015-5	3/2/2015	5/1/2015	137.55	137.55		Open
Delicious LLC	Invoice	2015-4	2/11/2015	4/12/2015	6,665.20	6,665.20		Overdue
The Market Inc	Invoice	2015-3	2/2/2015	4/9/2015	9,874.00	9,874.00		Overdue
Tim J Hotel	Invoice	2015-2	1/28/2015	3/29/2015	999.60	999.60		Overdue
J&J Grocery	Invoice	2015-1	1/23/2015	3/24/2015	523.10	523.10		Overdue

When the invoice's window opens go to "Receive Payments" and enter a payment for the amount advanced.

In our example you'll receive \$8000 as an advance.

b. Go to "Receive Payments"

The screenshot displays the 'Create Invoices - Accounts Receivable' software interface. A red arrow points to the 'Receive Payments' button in the top right toolbar. The main window shows an invoice for 'Carrot Inc' dated 03/19/2015, with an invoice number of 2015-10. The invoice item is 'Avocados' with a quantity of 10,000 and a total amount of 10,000.00. The right sidebar contains sections for 'SUMMARY', 'CUSTOMER PAYMENT', 'RECENT TRANSACTION', and 'NOTES'. The 'RECENT TRANSACTION' section shows a payment of 10,000.00 on 03/19/15.

ITEM	QUANTITY	DESCRIPTION	RATE	AMOUNT
Avocad...	10,000	avocados	1.00	10,000.00

SUMMARY	
Preferred delivery method	E-mail
Open balance	10,000.00
Unbilled expenses	0.00

RECENT TRANSACTION	
03/19/15 Invoice	10,000.00

TOTAL	
TOTAL	10,000.00
PAYMENTS APPLIED	0.00
BALANCE DUE	10,000.00

- c. Record a payment for the advance amount to the Bank Checking Account
Enter a \$8000 payment (advanced amount)

Customer Payment CUSTOMER BALANCE 10,000.00

RECEIVED FROM: Carrot Inc
 PAYMENT AMOUNT: 8,000.00
 DATE: 04/16/2015
 REFERENCE #: 2015-10F
 DEPOSIT TO: Bank Corp Ch...
 A/R ACCOUNT: Accounts Receivable

DATE	NUMBER	ORIG. AMT.	AMT. DUE	PAYMENT
03/19/2015	2015-10	10,000.00	10,000.00	8,000.00
Totals		10,000.00	10,000.00	8,000.00

UNDERPAYMENT \$ 2,000.00.
 WHEN FINISHED:
 LEAVE THIS AS AN UNDERPAYMENT
 WRITE OFF THE EXTRA AMOUNT

AMOUNTS FOR SELECTED INVOICES
 AMOUNT DUE 10,000.00
 APPLIED 8,000.00
 DISCOUNT AND CREDITS APPLIED 0.00

MEMO: Factored Invoice 2015-10

The difference between the Invoice amount and the advanced amount, in our example \$2000, needs to be applied to the “Due From Factor” account.

d. Record a discount for the invoice amount minus the advance amount to the Due From Factor account

To make the recording of this transaction simple we'll use the Invoice discount function to record this transaction.

- On the invoice's window click on “Discounts and Credits” on the top menu.
- Go to the “Discount” tab.
- Include the amount Due from Factor in the “Amount of Discount” field.
- Choose the “Due From Factor” account as Discount Account.
- Click on Done

The screenshot displays the 'Discount and Credits' window within a 'Receive Payments' application. The window is divided into two main sections: 'INVOICE' and 'Discount'.

INVOICE Section:

Customer:Job	Carrot Inc	Amount Due	10,000.00
Number	2015-10	Discount Used	2,000.00
Date	03/19/2015	Credits Used	0.00
Original Amt.	10,000.00	Balance Due	8,000.00

Discount Section:

The 'Discount' tab is selected. The 'Discount Date' field is empty. The 'Terms' are set to 'Net 60'. The 'Suggested Discount' is 0.00. The 'Amount of Discount' is manually entered as 2,000.00. The 'Discount Account' is set to 'Due From Factor' via a dropdown menu.

At the bottom of the window, there are three buttons: 'Done', 'Cancel', and 'Help'.

After recording this transaction, the receivable will be taken off your books, your “Bank Checking Account” balance will increase by \$8000, and the “Due From Factor” account will increase by \$2000.

On The Rise LLC Customer Balance Detail All Transactions

Type	Date	Num	Account	Amount	Balance
Broke Corp					
Invoice	04/09/2015	2015...	Accounts Receiva...	3,353.00	3,353.00
Total Broke Corp				3,353.00	3,353.00
Carrot Inc					
Invoice	03/19/2015	2015...	Accounts Receiva...	10,000.00	10,000.00
Payment	04/16/2015	2015...	Accounts Receiva...	-8,000.00	2,000.00
Discount	04/16/2015	2015...	Accounts Receiva...	-2,000.00	0.00
Total Carrot Inc				0.00	0.00
Delicious LLC					

Report Center

Transaction Detail by Account

Customize Report Comment on Report Share Template Memorize Print E-mail Excel Hide Header Refresh

Dates: This Month-to-date From: 04/01/2015 To: 04/16/2015 Total By: Account list Sort By: Default

9:50 AM
04/16/15

On The Rise LLC Transaction Detail by Account April 1 - 16, 2015

Accrual Basis

Type	Date	Num	Name	Memo	Clr	Split	Amount	Balance
Bank Corp Checking Account								
Deposit	04/01/2015			Account Opening Balance	✓	Opening Bala...	1,000,000.00	1,000,000.00
Payment	04/16/2015		Carrot Inc	Factored Invoice 2015-10		Accounts Re...	8,000.00	1,008,000.00
Total Bank Corp Checking Account							1,008,000.00	1,008,000.00
Accounts Receivable								
Invoice	04/09/2015	2015...	Broke Corp			Product Sales	3,353.00	3,353.00
Payment	04/16/2015		Carrot Inc	Factored Invoice 2015-10		Bank Corp Ch...	-8,000.00	-4,647.00
Discount	04/16/2015		Carrot Inc	Factored Invoice 2015-10		Bank Corp Ch...	-2,000.00	-6,647.00
Total Accounts Receivable							-6,647.00	-6,647.00
Due From Factor								
Payment	04/16/2015		Carrot Inc	Factored Invoice 2015-10		Bank Corp Ch...	2,000.00	2,000.00
Total Due From Factor							2,000.00	2,000.00
Inventory Asset								

2- Factoring With Recourse: Recording the Liability to the Factoring Company

If your company is **Factoring With Recourse** you need to record a liability in case factored invoices are not collected as follows:

- **Option I:** if the your company uses Allowance for Bad Debts Method
- **Option II:** if your company uses Direct Write-off Method

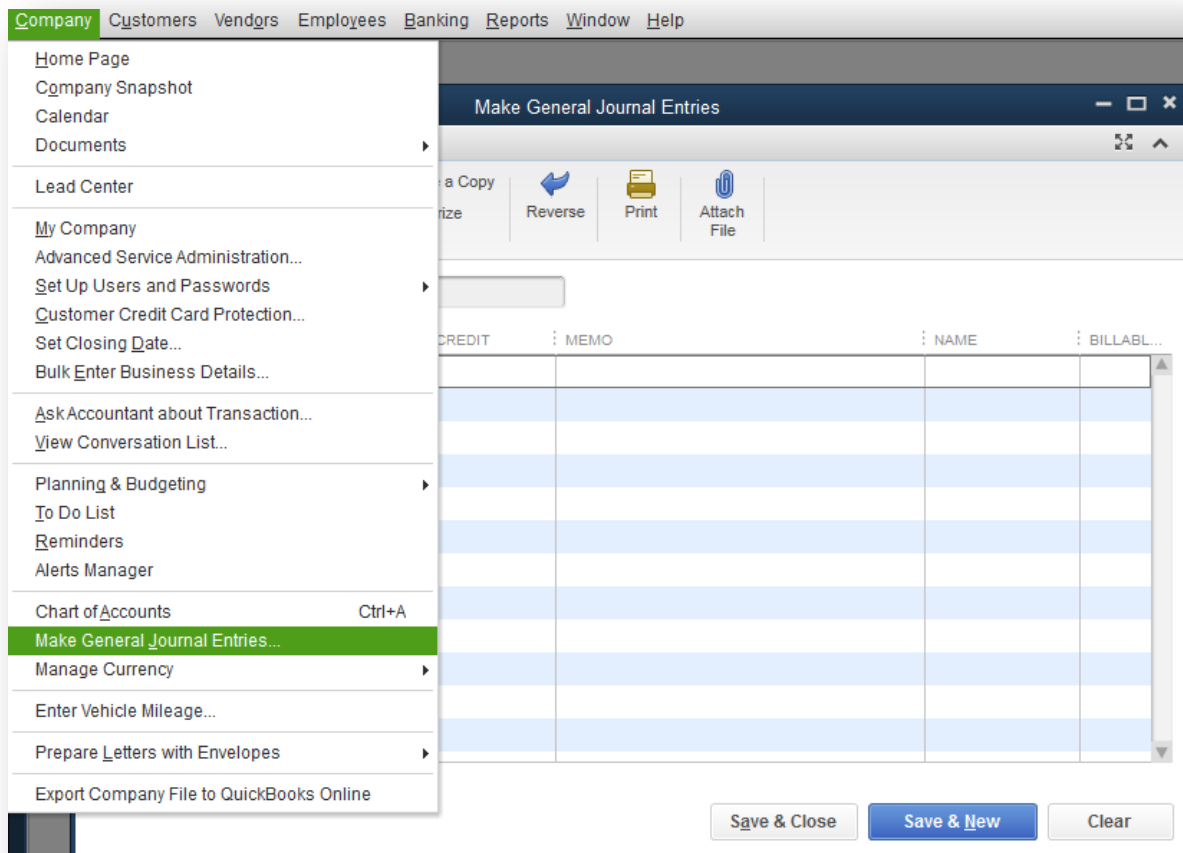
OPTION I- YOUR COMPANY USES ALLOWANCE FOR BAD DEBTS METHOD

Our example: \$10000 invoice, 5% uncollectible receivables estimate, Recourse Liability \$500 (\$10000* 5%).

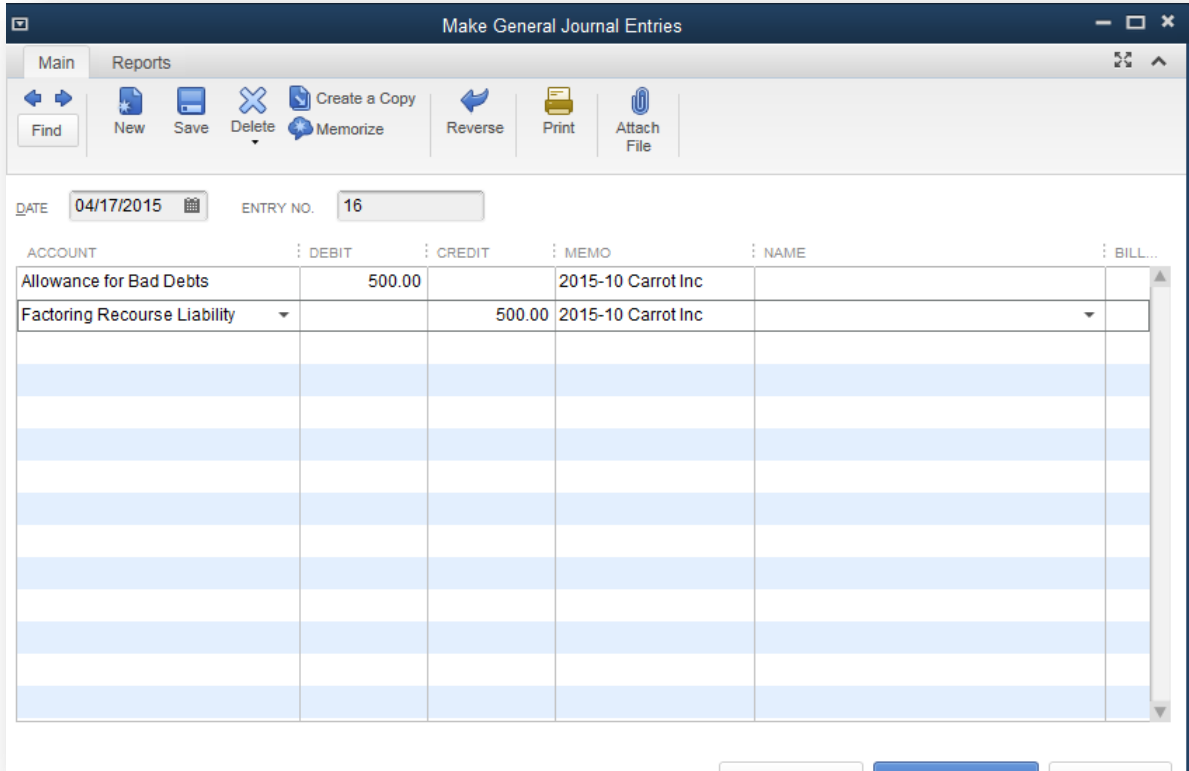
Account	Debit	Credit
Allowance for Bad Debts	500	
Factoring Recourse Liability		500

Recording this transaction on QB

a. Go to Make General Journal Entries



- b. Record a debit for the invoice amount multiplied by the Uncollectible Receivables Estimate (%) to the Allowance for Bad Debts account
- c. Record a credit for the same amount the Factoring Recourse Liability account



OPTION 2- YOUR COMPANY USES DIRECT WRITE-OFF METHOD

Our example: \$10000 invoice, 5% uncollectible receivables estimate, Recourse Liability \$500 (\$10000* 5%).

Account	Debit	Credit
Bad Debts Expense	500	
Factoring Recourse Liability		500

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount multiplied by the Uncollectible Receivables Estimate (%) to the Bad Debts Expense account
- Record a credit for the same amount the Factoring Recourse Liability account

The screenshot shows the 'Make General Journal Entries' window. The date is 04/17/2015 and the entry number is 16. The journal entry table is as follows:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Bad Debts Expense	500.00		2015-10 Carrot Inc		
Factoring Recourse Liability		500.00	2015-10 Carrot Inc		

Buttons at the bottom: Save & Close, Save & New, Clear.

STEP 3: INVOICE COLLECTED BY THE FACTORING COMPANY

FACTORED INVOICES: INVOICE COLLECTION

A - Recording Full Collections and Factoring Discount Fees

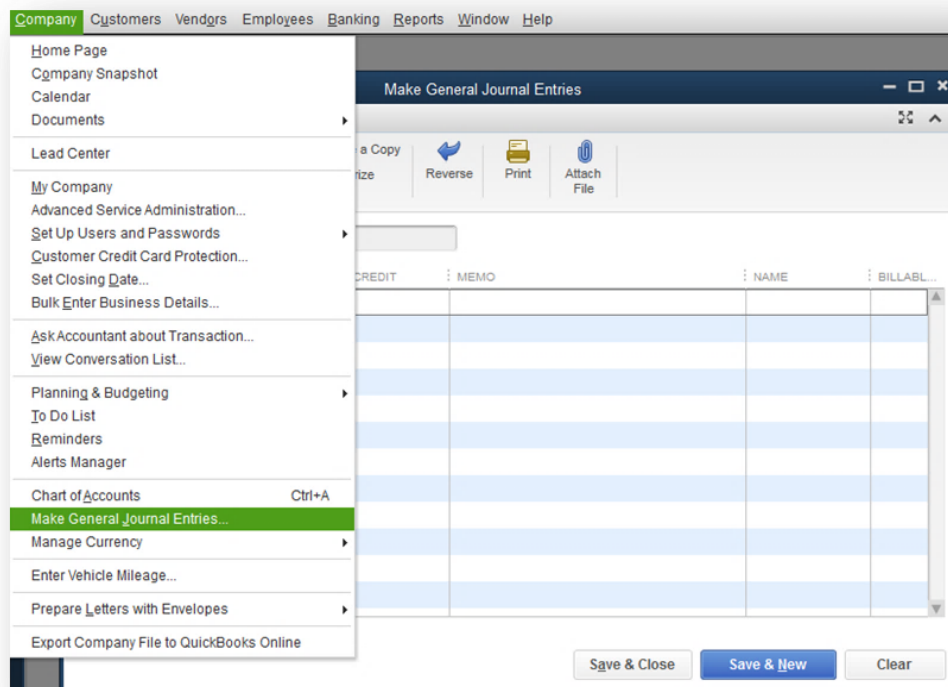
Our example: \$10000 invoice, \$8000 advanced, 3% Discount Fee= \$300(\$10000*3%)

Recording the payment & discount fees

Account	Debit	Credit
Factoring Holding Account	1700	
Factoring Discount	300	
Due From Factor		2000

Recording this transaction on QB

a. Go to Make General Journal Entries



- b. Record a debit for the Invoice reserve amount (invoice amount minus advanced amount) minus the Discount Fee to the Factoring Holding account
- c. Record a debit for the Discount Fee to the Factoring Discount account
- d. Record a credit for the invoice reserve amount to the Due from Factor account

Income Tracker

Make General Journal Entries

Main Reports

Find New Save Delete Create a Copy Memorize Reverse Print Attach File

DATE 04/30/2015 ENTRY NO. 9

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Factoring Holding Account	1,700.00		2015-10 Carrot Inc		
Factoring Discount	300.00		2015-10 Carrot Inc		
Due From Factor		2,000.00	2015-10 Carrot Inc		

Save & Close Save & New Clear

B- Recording Partial Collections and Factoring Discount Fees

B1- RECORDING PARTIAL COLLECTIONS

CASE I: If amount collected equals invoice advanced amount

Our example: Invoice \$10000, Advanced Amount \$8000, Payment \$ 8000

Partially reversing the sale

Account	Debit	Credit
Accounts Receivable	2000	
Due From Factor		2000

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
- Record a credit for the invoice reserve amount to the Due From Factor account

The screenshot shows the 'Make General Journal Entries' window. At the top, there are menu options 'Main' and 'Reports', and a toolbar with icons for 'Find', 'New', 'Save', 'Delete', 'Memorize', 'Reverse', 'Print', and 'Attach File'. Below the toolbar, the 'DATE' is set to '04/30/2015' and 'ENTRY NO.' is '11'. The main table has columns for ACCOUNT, DEBIT, CREDIT, MEMO, NAME, and BILL... The entry is as follows:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Accounts Receivable	2,000.00		2015-10 Uncollected C...	Carrot Inc	
Due From Factor		2,000.00	2015-10 Carrot Inc		

At the bottom of the window, there are three buttons: 'Save & Close', 'Save & New', and 'Clear'.

CASE II: If payment amount is higher than invoice advance amount

Our example: Invoice \$10000, Advance Amount \$8000, Payment \$ 9000

Partially reversing the sale & receiving positive difference

Account	Debit	Credit
Accounts Receivable	1000	
Factoring Holding Account	1000	
Due From Factor		2000

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
- Record a debit for the collected amount minus the advance amount to the Factoring Holding account
- Record a credit for the invoice reserve amount to the Due From Factor account

The screenshot shows the 'Make General Journal Entries' window. The date is 04/30/2015 and the entry number is 9. The journal entry is as follows:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Accounts Receivable	1,000.00		2015-10 Uncollected	Carrot Inc	
Factoring Holding Account	1,000.00		2015-10 Carrot Inc		
Due From Factor		2,000.00	2015-10 Carrot Inc		

Buttons at the bottom: Save & Close, Save & New, Revert.

CASE III: If payment amount is lower than invoice advance amount

Our example: Invoice \$10000, Advance Amount \$8000, Payment \$ 6000

Partially reversing the sale & paying back the difference

Account	Debit	Credit
Accounts Receivable	4000	
Factoring Holding Account		2000
Due From Factor		2000

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
- Record a credit for the advance amount minus the collected amount to the Factoring Holding Account
- Record a credit for the invoice reserve amount to the Due From Factor account

The screenshot shows the 'Make General Journal Entries' window with the following data:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Accounts Receivable	4,000.00		2015-10 Uncollectable ...	Carrot Inc	
Factoring Holding Account		2,000.00	2015-10 Carrot Inc		
Due From Factor		2,000.00	2015-10 Carrot Inc		

Buttons at the bottom: Save & Close, Save & New, Clear.

B2- RECORDING THE FACTORING DISCOUNT FEES

Recording the discount fees

Account	Debit	Credit
Factoring Discount	300(*)	
Factoring Holding Account		300(*)

(*example) Discount fee amount

Recording this transaction on QB

- Record a debit for the discount fee to the Factoring Discount account
- Record a credit for the same amount to the Factoring Holding account

Report Center

Make General Journal Entries

Main Reports

Find New Save Delete Memorize Reverse Print Attach File

DATE 04/30/2015 ENTRY NO. 10

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Factoring Discount	300.00		2015-10 Carrot Inc		
Factoring Holding Account		300.00	2015-10 Carrot Inc		

Save & Close Save & New Clear

NON-FACTORED INVOICES: INVOICE COLLECTION

Recording Full or Partial Payments

Example: The factoring company collects a \$174 non-factored invoice

Recording a payment

Account	Debit	Credit
Factoring Holding Account	174 (*)	
Accounts Receivable		174(*)

(*) Amount Collected

Recording this transaction on QB

- Open the invoice information (receive payments)
- Record a payment for the collected amount to the Factoring Holding Account

STEP 4: UNCOLLECTIBLE FACTORED INVOICES

DEALING WITH CHARGE-BACKS

Recording Factored Invoice Charge-Backs

Our example: \$10000 invoice, \$8000 advanced, \$300 factoring discount, \$0 Collected.

Reversing the sale and paying back amount advanced

Account	Debit	Credit
Accounts Receivable	10000	
Due From Factor		2000
Factoring Holding Account		8000

Recording this transaction on QB

- a. Go to Make General Journal Entries
- b. Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
- c. Record a credit for the advance amount minus the collected amount to the Factoring Holding Account
- d. Record a credit for the invoice reserve amount to the Due From Factor account

Report Center

Make General Journal Entries

Main Reports

Find New Save Delete Create a Copy Memorize Reverse Print Attach File

DATE 04/30/2015 ENTRY NO. 12

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Accounts Receivable	10,000.00		2015-10 Uncollectable ...	Carrot Inc	
Factoring Holding Account		8,000.00	2015-10 Carrot Inc		
Due From Factor		2,000.00	2015-10 Carrot Inc		

Save & Close Save & New Revert

RECORDING FACTORING DISCOUNT FEES FOR CHARGE-BACKS

Right after the charge-back has been recorded, the factoring discount fees charged by the factor to the seller for each factored invoice have to be recorded too.

Recording the discount fees

Account	Debit	Credit
Factoring Discount	300(*)	
Factoring Holding Account		300(*)

(*example) Discount fee amount

Recording this transaction on QB

- c. Record a debit for the discount fee to the Factoring Discount account
- d. Record a credit for the same amount to the Factoring Holding account

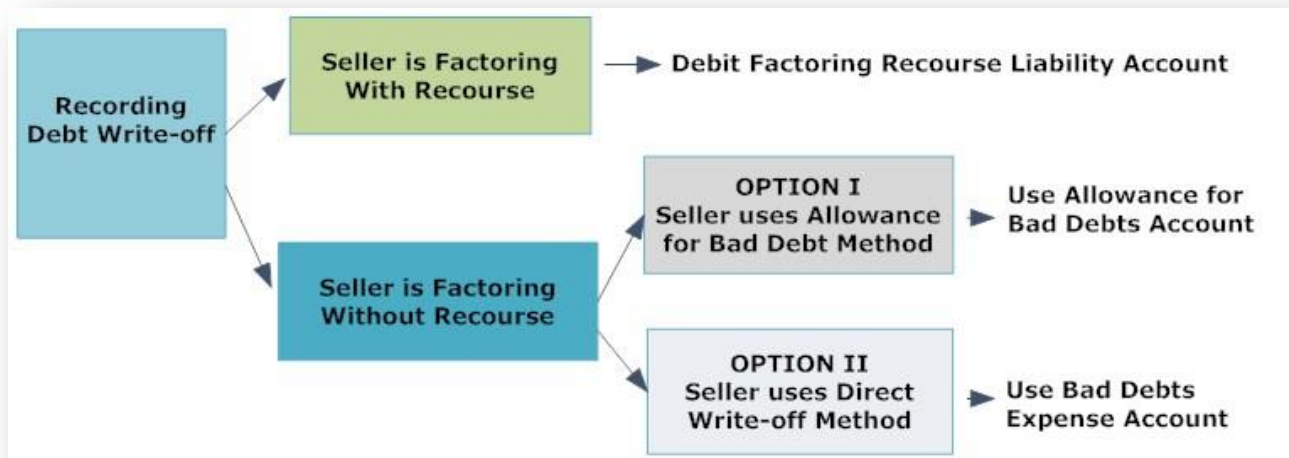
DATE: 04/30/2015 ENTRY NO.: 10

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Factoring Discount	300.00		2015-10 Carrot Inc		
Factoring Holding Account		300.00	2015-10 Carrot Inc		

Buttons: Save & Close, Save & New, Clear

DEALING WITH BAD DEBTS FROM FACTORED INVOICES

Right after a partial invoice collection, or charge-back has been recorded, if your company decides the receivable debt is uncollectible you need to record the write-off of the amount unpaid.



Seller = Your company

Our example: \$10000 invoice, collected \$6000

A- If your company is Factoring with Recourse

Account	Debit	Credit
Factoring Recourse Liability	4000 (*)	
Accounts Receivable		4000 (*)

(*example) Uncollectible amount = Invoice amount minus collected amount

Recording this transaction on QB

- a. Go to Make General Journal Entries
Record a debit for the invoice amount minus the collected amount to the Factoring Recourse Liability account
- b. Record a credit for the same amount to the Accounts Receivable account

Make General Journal Entries

Main Reports

Find New Save Delete Create a Copy Memorize Reverse Print Attach File

DATE: 04/17/2015 ENTRY NO.: 16

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILLABLE?
Factoring Recourse Liability	4,000.00		2015-10 Carrot Inc		
Accounts Receivable		4,000.00	2015-10 Carrot Inc		

Save & Close Save & New Clear

B- If your company is Factoring Without Recourse

Data entry depends on the method your company uses to write-off bad debt:

- **Option I: Your company uses Allowance for Bad Debt Method**
- **Option II: Your company uses Direct Write-off Method**

OPTION I: If your company uses ALLOWANCE FOR BAD DEBTS METHOD

Account	Debit	Credit
Allowance for Bad Debts	4000 (*)	
Accounts Receivable		4000(*)

(*example) Uncollectible amount = Invoice amount minus collected amount

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount minus the collected amount to the Allowance for Bad Debts account
- Record a credit for the same amount to the Accounts Receivable account

The screenshot displays the 'Make General Journal Entries' window. At the top, the title bar reads 'Make General Journal Entries'. Below the title bar, there are two tabs: 'Main' and 'Reports'. A toolbar contains several icons: 'Find', 'New', 'Save', 'Delete', 'Memorize', 'Reverse', 'Print', and 'Attach File'. Below the toolbar, the 'DATE' is set to '04/17/2015' and the 'ENTRY NO.' is '16'. The main area is a table with columns: ACCOUNT, DEBIT, CREDIT, MEMO, NAME, and BILLABLE?. The table contains two entries:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILLABLE?
Allowance for Bad Debts	4,000.00		2015-10 Carrot Inc		
Accounts Receivable		4,000.00	2015-10 Carrot Inc		

At the bottom of the window, there are three buttons: 'Save & Close', 'Save & New', and 'Clear'.

OPTION II- If your company uses DIRECT WRITE-OFF METHOD

Account	Debit	Credit
Bad Debts Expense	4000 (*)	
Accounts Receivable		4000 (*)

(*example) Uncollectible amount = Invoice amount minus collected amount

Recording this transaction on QB

- Go to Make General Journal Entries
- Record a debit for the invoice amount minus the collected amount to the Bad Debts Expense account
- Record a credit for the same amount to the Accounts Receivable account

Make General Journal Entries

DATE: 04/17/2015 ENTRY NO.: 16

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILLABLE?
Bad Debts Expense	4,000.00		2015-10 Carrot Inc		
Accounts Receivable		4,000.00	2015-10 Carrot Inc		

Buttons: Save & Close, Save & New, Clear

STEP 5: RECORDING ACCOUNT CHARGES AND FEES

Recording Factoring Expenses

Whenever your company is informed by the factor that a miscellaneous fee has been discounted from the reserve account, you can record the transaction as follows:

Our example: \$20 wire fee

Recording the factoring expenses

Account	Debit	Credit
Factoring Expenses	20	
Factoring Holding Account		20

Recording this transaction on QB

- Record a debit for the factoring expense to the Factoring Expenses account
- Record a credit for the same amount to the Factoring Holding account

The screenshot shows the 'Make General Journal Entries' window. The date is set to 04/30/2015 and the entry number is 14. The journal entry table is as follows:

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Factoring Expenses	20.00		Wire Fee		
Factoring Holding Account		20.00	Wire Fee		

At the bottom of the window, there are three buttons: 'Save & Close', 'Save & New', and 'Clear'.

Recording Administrative Factoring Fees

Whenever your company is informed by the factoring company that an administrative fee has been discounted from the reserve account you can record the transaction as follows:

Example: \$200 admin fee

Recording the administrative fees

Account	Debit	Credit
Factoring Administrative Fees	200	
Factoring Holding Account		200

Recording this transaction on QB

- Record a debit for the factoring administrative fees to the Factoring Administrative Expenses account
- Record a credit for the same amount to the Factoring Holding account

Make General Journal Entries

DATE: 04/30/2015 ENTRY NO.: 14

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Factoring Admin Costs	200.00		March 2015		
Factoring Holding Account		200.00	Administrative Fees		

Buttons: Save & Close, Save & New, Clear

STEP 6: RECORDING RESERVE RELEASES

Whenever your company is informed by the factoring company that reserve amounts have been released and wired to your bank account, you can record the transaction as follows:

Our example: \$20000 reserve release

Recording a reserve release

Account	Debit	Credit
Bank Checking Account	20000	
Factoring Holding Account		20000

Recording this transaction on QB

- Record a debit for the amount released to the Bank Checking account
- Record a credit for the same amount to the Factoring Holding account

Make General Journal Entries

DATE: 04/30/2015 ENTRY NO.: 15

ACCOUNT	DEBIT	CREDIT	MEMO	NAME	BILL...
Bank Corp Checking Account	20,000.00		Reserve Release		
Factoring Holding Account		20,000.00	Reserve Release		

Save & Close Save & New Clear

ANNEX A: EXPLANATION OF ACCOUNTS

Bank Checking Account: the bank account your company uses to make and receive payments.

Accounts Receivable: invoices from sales not yet collected.

Sales Discounts: account or accounts used to record discounts on sales.

Factoring Holding Account: account used as a temporary substitute of the bank checking account when invoices are collected by the factoring company. It keeps the balance of cash held at the factoring company's reserve account.

Due From Factor: balance the factoring company owes your company for the purchase of a receivable pending debtor payment.

Factoring Discount Fee: account used to record invoice-related discount fees charged by the factoring company at the time of invoice collection or charge-backs.

Factoring Administrative Fee: account used to record account-related fees charged by the factoring company based on account outstanding balance (usually a rate charged on the balance of unpaid factored invoices).

Factoring Expenses: account used to record miscellaneous factoring expenses such as wire fees, mailing fees, etc.

Factoring Recourse Liability: account used by companies when factoring with recourse to record an estimated liability to the factoring company in case invoices sold are not collected.

Bad Debts Expense: expense account used to write-off uncollectible debt.

Allowance for Bad Debts: contra current assets account associated with accounts receivable used when a company uses the Allowance for Bad Debts Method to write-off debt.

Accounting Techniques of Bad Debts Treatment

Allowance for Bad Debts Method: the doubtful debts are estimated and bad debts expense is recognized before the debts actually become uncollectible.

Reference and more information: <http://accountingexplained.com/financial/receivables/bad-debts-allowance-method>

Direct Write-Off Method: accounts receivable are directly written-off against income when they are actually classified as uncollectible debts.

Reference and more information: <http://accountingexplained.com/financial/receivables/bad-debts-direct-write-off-method>

ABOUT GATEWAY COMMERCIAL FINANCE – FACTORING COMPANY

LOOKING FOR A NEW FACTORING COMPANY? HERE ARE THE BENEFITS THAT ONLY GATEWAY CAN OFFER YOUR COMPANY

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We're a financially stable funding provider. Working with us you'll have the confidence that you'll have funds available whenever you need them.

We Protect Your Business' Reputation

We care about your reputation with your customers and work hard to preserve your image. Our transparent servicing is truly unique from other factoring companies. We've invested heavily in state of the art technology and our people to ensure your reputation remains preserved.

Transparency is the foundation of our continuous growth. We deliver what we promise.



Ready to get started? Call Marc J. Marin, Managing Director now and begin experiencing the "Gateway Difference".

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