Factoring Accounts Receivable

**Business**

1. The business invoices the customer for products and services sold to them on account for $5,000

2. The business sells the invoice to the factoring company for a fee of 3% ($150) of the invoice amount

3. The factoring company gives the business an advance of 85% ($4,250) of the invoice amount and keeps back a reserve amount of 12% ($600)

4. The business pays interest on the advance of $4,250 until the cash is collected from the customer

5. Receivables management

**Factoring Company**

6. The factoring company collects the invoice amount of $5,000 from the customer

7. The factoring company releases the reserve amount ($600) less the fees ($150) to the business ($450)

© 2019 www.double-entry-bookkeeping.com