
Accounting Module for CFO Application for QuickBooks



Accounting Treatment:

Factoring as a Loan

Version 1.0

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INTRODUCTION

Disclaimer: The information available in this document is meant to explain the different journal entries that the accounting module for the CFO application for QuickBooks performs. This document has not been created with the purpose of providing accounting advice. You should contact your accountant to obtain professional advice regarding the accounting treatment of factoring transactions before deciding whether to enable the accounting module or not. We offer this module as a tool to facilitate your company's bookkeeping of factoring transactions but in no event shall Odyssey Operating Group, LLC be responsible or liable, directly or indirectly, for any damage or loss caused or alleged to be caused by or in connection with the use of this accounting module. Odyssey Operating Group will not be liable for any errors or omissions, losses, or damages that may arise from the use of this application.

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

Note: 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 QuickBooks for PC versions. You may need to look for them.

ENABLING THE ACCOUNTING MODULE & DEFINING YOUR CUSTOM SETTINGS

To use this Module the first thing you need to do is to go to the CFO Application's "Settings" page and Enable the Accounting Module.

Accounting Module Enabled? YES ← Yes

Whenever the accounting Module is set to "Yes" the system will allow you to define the other three settings that the CFO Application needs to perform the recording of transactions in QuickBooks:

1. Your company's factoring account settings,
2. The accounting treatment your company uses for factoring advances, and
3. The QuickBooks accounts you want the application to use when recording transactions

Accounting Treatment for Factoring

You need to define the accounting treatment that your company gives to factoring

1. Treat factoring advances as money advanced for the sale of receivables
2. Treat factoring advances as loans

This guide explains in detail the accounting transactions for the second option, treating advances as loans. You need to change the option "Treat advance as a loan" to "YES".

Treat advance as a loan? YES ← Yes

Defining Your Factoring Account Settings

The first groups of settings you need to define are related to two different sets of variables:

- a. Settings based on your factoring agreement terms
- b. Your accounting preferences concerning the recording and estimate of bad debts

Factoring Agreement Terms

These settings are based on your factoring agreement. Please insert here the terms agreed with your factoring company and the effective date of those terms.

ACCOUNT SETTINGS

Click to change rate & date

Advance Rate (%) Change

Rate Effective Date Please define

Factoring With Recourse Change

Status Effective Date Please define

Click to change status & date

- **Advance rate:** the advance your factoring company will provide when purchasing your invoices expressed in percentage (e.g. 80 %) – Do not include the “%” sign. You also need to include the effective date for the rate you are setting up. Be sure to check your agreement to confirm the date that the advance rate becomes effective.

ADVANCE RATE

NEW ADVANCE RATE

Enter Rate Effective Date

Enter New Rate(%)

Input your rate

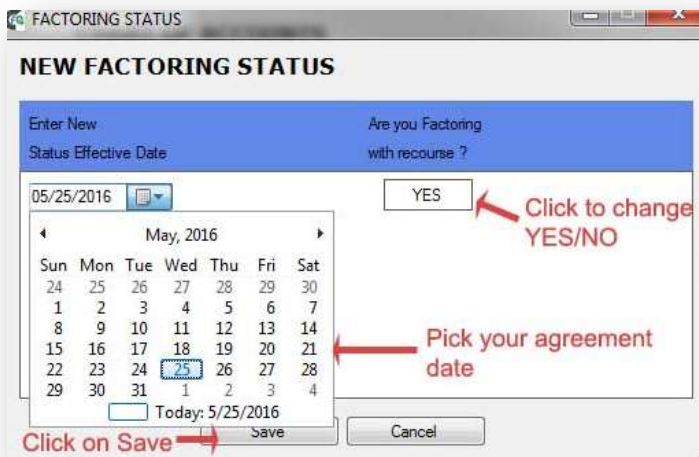
Pick your rate agreement date

Click on save

Save Cancel

IMPORTANT NOTE: If at some point during your factoring relationship the agreed upon advance rate changes, you need to set the new rate and effective date for your new rate here. The invoices with a purchase date beginning on the date of the new agreement will be recorded using the new rate.

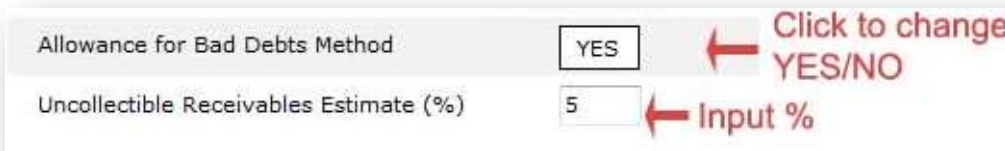
- **Factoring With Recourse:** If you are factoring with recourse, set it to “Yes”. You also need to include the effective date for the new factoring status you are setting up. Be sure to check your contract to confirm the effective date of this agreement.



IMPORTANT NOTE: If at some point during your factoring relationship your agreement changes from Recourse to Non-Recourse or vice versa you need to set the new status and effective date here. The invoices with a purchase date beginning on the date of the new agreement will be recorded according to the new status.

Accounting Treatment of Bad Debts

These settings are based on your accounting preferences regarding the estimate and recording of uncollectible invoices.



- **Allowance for Bad Debts Method:** pick the method you use to treat bad debts here. If you use the Allowance for Bad Debts Method, set it to “Yes”. If you use the Direct Write-off Method, set it to “No”(*)
- **Uncollectible Receivables Estimate:** the percentage of invoices that you estimate will not be paid by your customers. Look at your client portfolio payment history to get a good idea of the number to set. By default this variable is set to 5% but you can change it according to your own estimates (e.g. 7 %) – Do not include the “%” sign.

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

Defining the QuickBooks Accounts that the CFO Application Uses to Record Transactions

You need to let the CFO Application know which accounts you want to use to record transactions in QuickBooks. The system will pull all the accounts that are already in use in your QuickBooks software and let you pick the ones that you prefer for each account type. If an account that you need to set up does not exist you can then instruct the CFO Application to create a new one in QuickBooks.

If you are already factoring or you have factored before it is very likely that the factoring related accounts you need to define already exist in QuickBooks. If you have never factored before you will need to ask the application to create a few new accounts.

Existing accounts

The following accounts very likely already exist and are in use with a similar name in your QuickBooks chart of accounts. If they do not exist, ask the application 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) – You’ll be asked to set this account only if your company uses Allowance for Bad Debts Method to record uncollectible receivable estimates instead of using a Direct Write-Off Method for uncollectible debts.

Accounts needed to record factoring-related transactions

If this is the first time your company is factoring, the accounts below may need to be created in QuickBooks to record factoring transactions. If you have factored and recorded factoring transactions before, you can pick one of the existing QuickBooks accounts that the system will pull for each account type(*):

- Factoring Reserve (Type: Current Assets – Bank Account)
- Factoring Advance (Type: Other Current Liability)
- Factoring Discount Fees (Type: Expenses)
- Factoring Administrative Fees (Type: Expenses)
- Factoring General Expenses (Type: Expenses)

(*)Note: See Annex A for detailed explanation of each type of account

Here is how to pick accounts from the list or ask the system to create one:



The options for each account type are pulled from your QuickBooks account.

Here is our sample setting for each account type. We'll use this setting through this document to exemplify transactions:

CHART OF ACCOUNTS

Let us know what accounts you use for:

Bad Debts Expense	<input type="text" value="Bad Debts Expense"/>
Sales Discounts	<input type="text" value="Sales Discounts"/>
Bank Checking Account	<input type="text" value="Bank Corp Checking Account"/>
Accounts Receivable	<input type="text" value="Accounts Receivable"/>
Allowance for Bad Debts	<input type="text" value="Allowance for Bad Debts"/>
Factoring Reserve	<input type="text" value="Factoring Holding Account"/>
Factoring Discount Fee	<input type="text" value="Factoring Discount"/>
Factoring Administrative Fees	<input type="text" value="Factoring Admin Fees"/>
Factoring General Expenses	<input type="text" value="Factoring Expenses"/>
Amounts Due From Factor	<input type="text" value="not needed"/>
Factoring Advance	<input type="text" value="Factoring Advance"/>
Factoring Liability	<input type="text" value="not needed"/>

FACTORING INVOICES: RECORDING PURCHASES BY YOUR FACTORING COMPANY

When the factoring company informs you that an invoice submitted in an assignment schedule has been purchased, you need to go to the “Sell Invoices” screen and mark the invoice as purchased as follows:

Click on the “down” arrow on the “Purchase Status” column and a drop-down menu will show up.



Click on “Purchased”.



The following pop-up window will open.



- Click on the “Enter Purchase Date” drop-down and pick the purchase date in the calendar.
- When done click on “Save”. Your invoice will now be marked as purchased.

If the accounting module is enabled, once an invoice is marked as purchased, the application will automatically perform the entries required in QuickBooks to record the sale. Below are all the steps the system performs, and the accounts and settings it uses. You don’t need to do anything in QuickBooks; the CFO application will do it for you.

Recording Purchases

When an invoice is marked as “Purchased” the CFO application automatically performs QuickBooks journal entries recording the transaction.

Data pulled from QB

- Invoice amount

Data pulled from the CFO Application Liquidation Screen (included by you when the invoice was marked as purchased)

- Invoice purchase date

Data pulled from the CFO Application Settings (pre-defined by you in the settings area)

- Advance rate

QB Accounts to use (pre-defined by you in settings – chart of accounts)

- Factoring Advance
- Bank Checking Account

Calculations performed by the Accounting Module

- **Advance amount:** multiply “invoice amount” by “advance rate”

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%

- Advanced amount: $\$10,000 \times 0.80 = 8,000$

Your company's factoring discount fees: 3%

- Factoring Discount amount: $\$10,000 \times 0.03 = 300$

Recording the sale of a receivable**The CFO Application will record:**

1. A debit to your Bank Account (“Bank Corp Checking Account”) for the amount advanced
2. A credit to your Factoring Advance (loan) account for the same amount.

Account	Debit	Credit
Bank Corp Checking Account	8000	
Factoring Advance		8000

After recording this transaction, your “Bank Checking Account” balance will increase by \$8000, and the “Factoring Advance” account will increase by the same amount.

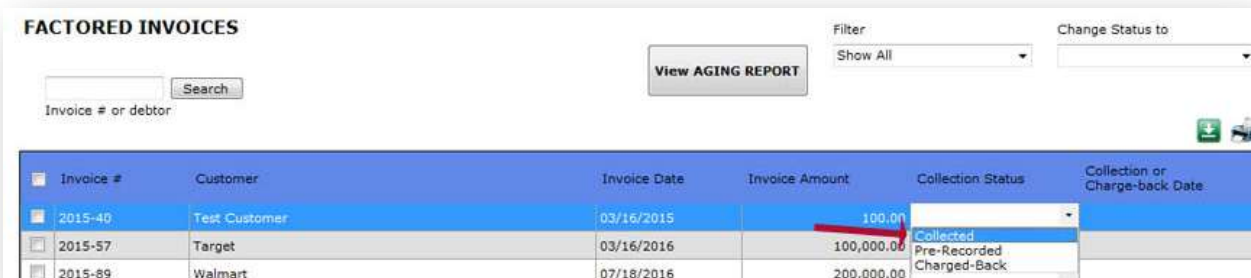
FACTORING INVOICES: RECORDING INVOICE COLLECTIONS

When the factoring company informs you that a factored invoice has been collected, you need to go to the Factored screen and mark the invoice as collected as follows:

Click on the “down” arrow on the “Collection Status” column and a drop-down menu will show up.



Click on “Collected”.



The following pop-up window will open.

MARK COLLECTED

Insert amount collected

Insert discount fee paid

Invoice #	Customer	Enter Collection Date	Enter Collection Amount	Enter Discount Fee	If partially-collected do not write-off debt
2015-40	Test Customer	03/24/2017	80.00	1.00	<input type="checkbox"/>

Pick the collections date

Check if you don't want uncollectible debt to be written-off (accounting module)

Click on save

Save Cancel

- Click on the “Enter Collection Date” drop-down and pick the collection date in the calendar.
- In the “Enter Collection Amount” column, input the amount collected (total or partial amount).
- In the “Enter Discount Fee” column input the discount fee charged by your factoring company for the purchase of that invoice.
- In the “If partially collected do not write off debt” column, check this box if you do not want the system to perform the journal entries required to write off the amounts of debt not collected. If this box is not checked the system will write off the debt.
- When done click on “Save”. Your invoice will now be marked as collected (or partially collected).

Once an invoice is marked as totally or partially collected, the CFO application will automatically perform the entries required in QuickBooks to record the collection and the factoring fees charged by your factor.

The journal entries the system performs depend on the amount collected (full or partial collections) and on the method you have set up for bad debts treatment.

The CFO application will make different journal entries depending on the amount collected:

- A. Full amount collected
- B. Partial amount collected

Data pulled from QuickBooks

- Invoice amount

Data pulled from the CFO Application (inserted by you in the factored invoices screen)

- Invoice collection date
- Amount collected
- Advanced amount: already calculated when the invoice was purchased
- Discount fee paid

QB Accounts to use (pre-set defined by you in settings – chart of accounts)

- Accounts Receivable
- Factoring Reserve
- Factoring Discount Fee
- Factoring Advance
- Bad Debts Expense or Allowance for Bad Debts (depending on the Bad Debts treatment chosen)

Calculations performed by the accounting module

- Invoice balance: invoice amount minus advanced amount
- Full Payment or Partial Payment
 - if the invoice amount equals the amount collected then the system records a full payment
 - If the invoice amount is higher than the amount collected then the system records a partial payment

A - Recording Full Collections & Factoring Discount Fees**Following our example**

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8000
- Collected amount: \$10,000
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does the collection process work?

When the factoring company collects an invoice it deposits the amount collected into the reserve account and then deducts the discount fees associated with that invoice and the amount that was previously advanced to you. The factor then keeps the remainder balance in your reserve account at the factoring company until the time when reserve amounts are released according to your factoring agreement.

The CFO Application will record:

- a. First: pay the invoice sending the payment to the Factoring Reserve account.
 1. A debit to the Factoring Reserve account for the amount collected.
 2. A credit to your Account Receivables account for the same amount

Account	Debit	Credit
Factoring Reserve	10000	
Accounts Receivable		10000

- b. Second: pay back the advance using the factoring reserve as the account where the payment comes from.
 1. A debit to the Factoring Advance account for the amount advanced
 2. A credit to the Factoring Reserve account for the same amount

Account	Debit	Credit
Factoring Advance	8000	
Factoring Reserve		8000

- c. Third: if you have entered the factoring discount fees charged by your factor, the CFO Application will record:
 1. A debit to the Factoring Discount Fees account for the amount charged as factoring discount fee.

2. A credit to your Factoring Reserve account for the same amount.

Account	Debit	Credit
Factoring Discount	300	
Factoring Reserve		300

B- Recording Partial Collections and Factoring Discount Fees

IMPORTANT NOTE: Because it is the most common situation in non-recourse agreements, the system will consider a transaction as fully non-recourse only if the invoice is entirely uncollectible. In the case of partial collections for any reason (e.g. customer discounts or debtor disputes) the system will treat the collection in the case of factoring without recourse agreements as it would do in the case of a recourse factoring agreement.

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8000
- Collected amount: \$8,000
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does this partial collection process work?

When the factoring company collects an invoice it deposits the partial amount collected into the reserve account and then deducts the discount fees associated with that invoice and the amount that was previously advanced to you. The factor then keeps the remainder balance, if any, in your reserve account at the factoring company until the time when reserve amounts are released according to your factoring agreement.

Lastly, unless the “If partially collected do not write off debt” column box is checked, the application will also write off the unpaid part of the receivable to take it out of the books.

Example: amount collected \$8000 (\$10000 invoice)

- a. First: partially pay the invoice sending the payment to the Factoring Reserve account
 1. A debit to the Factoring Reserve account for the amount collected.

2. A credit to your Account receivables account for the same amount

Account	Debit	Credit
Factoring Reserve	8000	
Accounts Receivable		8000

- b. Second: pay back the advance using the factoring reserve as the account where the payment comes from.

1. A debit to the Factoring Advance account for the amount advanced
2. A credit to the Factoring Reserve account for the same amount

Account	Debit	Credit
Factoring Advance	8000	
Factoring Reserve		8000

- c. Third: unless you have indicated that you don't want to write off the debt the system will record the write-off. Please see section "Dealing with Bad Debts from Unpaid or Partially Paid Invoices" in page 39 to learn how the CFO application will write off the uncollectible part of the receivable.

- d. Fourth: if you have entered the factoring discount fees charged by the factor, the CFO Application will record:

1. A debit to the Factoring Discount Fees account for the amount charged as factoring discount fee.
2. A credit to your Factoring Reserve account for the same amount

Account	Debit	Credit
Factoring Discount	300	
Factoring Holding Account		300

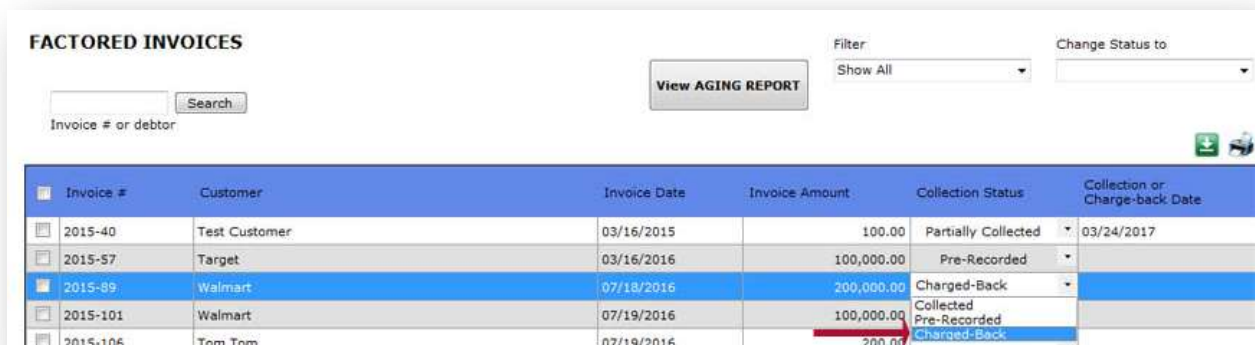
FACTORING WITH RECOURSE: RECORDING FACTORED INVOICES CHARGE-BACKS

When the factoring company informs you that a factored invoice was not collected and its was charged back to your reserve account you need to go to the Factored screen and mark the invoice as charged-back as follows:

Click on the “down” arrow on the “Collection Status” column and a drop-down menu will show up.



Click on “Charged-Back”.



The following pop-up window will open.

CHARGE BACKS

Invoice #	Customer	Enter Charge Back Date	Enter Discount Fee	If partially-collected do not write-off debt
2015-89	Walmart	03/24/2017	50.00	<input type="checkbox"/>

Pick the charge-back date →

Insert discount fee paid →

Check if you don't want uncollectible debt to be written-off (accounting module) →

Click on save → Save Cancel

- Click on the “Enter Charge-Back Date” drop-down and pick the charge-back date on the calendar.
- In the “Enter Discount Fee” column input the discount fee charged by your factoring company for the purchase of that invoice.
- In the “If partially collected do not write off debt” column check this box if you do not want the system to perform the journal entries required to write off the amounts of debt not collected. If this box is not checked, the system will write off the debt.
- When done click on “Save”. Your invoice will now be marked as charged-back.

Once an invoice is marked as charged-back, the CFO application will automatically perform the entries required in QuickBooks to record the charge-back and also the factoring fees charged by your factor.

Data pulled from QuickBooks

- Invoice amount

Data pulled from the CFO Application (inserted by you in the Factored area)

- Invoice charge-back date

- Advanced amount : already calculated when invoice was purchased
- Discount fee paid

QB Accounts to use

- Accounts Receivable
- Factoring Reserve
- Factoring Advance
- Factoring Discount Fees
- Bad Debt Expense or Allowance for Bad Debts

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8000
- Collected amount: \$0 (charged back)
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does this charge-back recording process work?

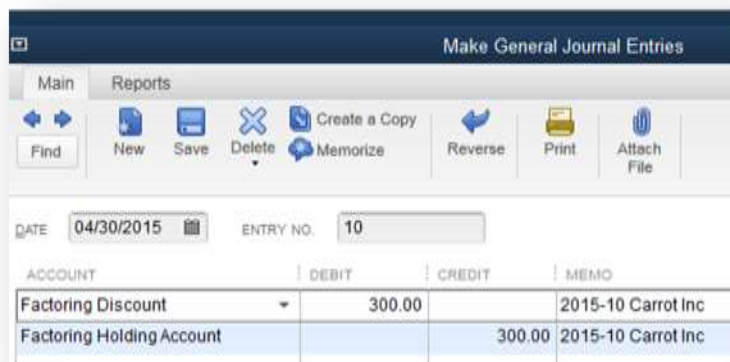
The system will credit your Factoring Reserve for the amount advanced to refund the factoring company for the balance owed. Afterward, the system will record the factoring discount fees charged by the factor to the reserve account. Lastly, unless you have checked the “If partially collected do not write off debt” box, the application will also write off the uncollectible debt to take it out of the books.

- a. First: pay back the advance using the factoring reserve as the account where the payment comes from
1. A debit to the Factoring Advance account for the amount advanced
 2. A credit to the Factoring Reserve account for the same amount

Account	Debit	Credit
Factoring Advance	8000	
Factoring Reserve		8000

- b. Second: unless you have indicated that you don't want to write off the debt, the system will record the write-off. Please see section "Dealing with Bad Debts from Unpaid or Partially Paid Invoices" in page 39 to learn how the CFO application will write off the uncollectible part of the receivable.
- c. Third: if you have entered the factoring discount fees charged by your factor, the CFO Application will record:
1. A debit to the Factoring Discount Fee ("Factoring Discount") account for the amount charged as factoring discount fee.
 2. A credit to the Factoring Reserve ("Factoring Holding") account for the same amount.

Account	Debit	Credit
Factoring Discount	300	
Factoring Holding Account		300



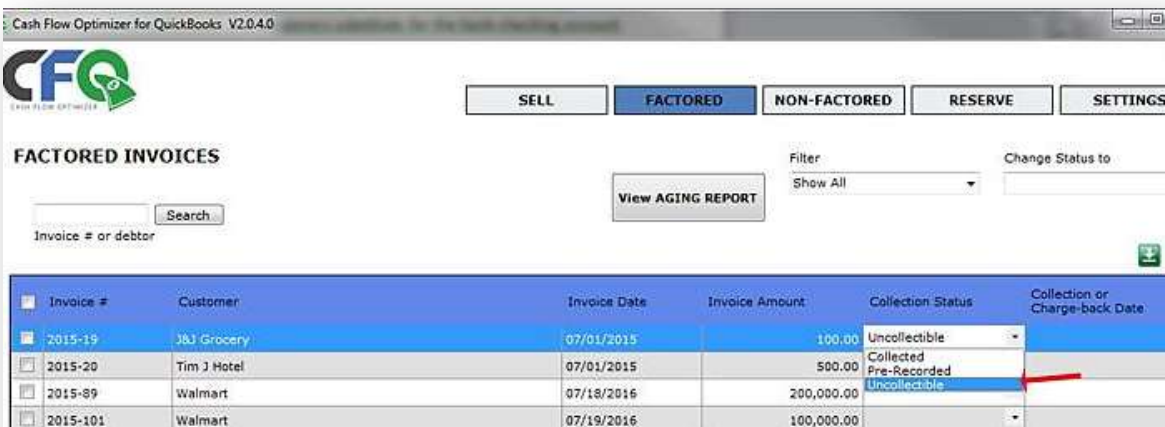
FACTORING WITHOUT RECOURSE: RECORDING UNCOLLECTIBLE FACTORED INVOICES

When the factoring company informs you that a factored invoice was not collected and you are factoring without recourse, you need to go to the Factored screen and mark the invoice as uncollectible as follows:

Click on the “down” arrow on the “Collection Status” column and a drop-down menu will show up.



Click on “Uncollectible”.



The following pop-up window will open.

Invoice #	Customer	Enter Uncollectible Date	Enter Discount Fee	If partially-collected do not write-off debt
5	Floors LLC	05/01/2017		<input type="checkbox"/>

Buttons: Save, Cancel

- Click on the “Enter Uncollectible Date” drop-down and pick the date on the calendar.
- In the “Enter Discount Fee” column input the discount fee charged by your factoring company, if any, for the purchase of that invoice.
- In the “If partially collected do not write off debt” column, check this box if you do not want the system to perform the journal entries required to write off the amounts of debt not collected. If this box is not checked, the system will write off the debt.
- When done click on “Save”. Your invoice will now be marked as uncollectible.

Once an invoice is marked as uncollectible the CFO application will automatically perform the entries required in QuickBooks to record the write-off, if applicable, and the factoring fees charged by your factor, if any.

Data pulled from QuickBooks

- Invoice amount

Data pulled from the CFO Application (inserted by you in the Factored area)

- Invoice uncollectible date
- Discount fee paid

QB Accounts to use

- Accounts Receivable
- Factoring Reserve
- Factoring Discount Fees
- Bad Debt Expense or Allowance for Bad Debts

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8000
- Collected amount: \$0 (uncollectible)
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does this uncollectible recording process work?

The system won't refund the factoring company for the balance owed but will record the factoring discount fees, if entered, charged by the factor to the reserve account. Lastly, unless you have checked the "If partially collected do not write off debt" box, the application will also write off the uncollectible debt to take it out of the books.

- First: unless you have indicated indicates that you don't want to write off the debt the system will record the write-off. Please see section "Dealing with Bad Debts from Unpaid or Partially Paid Invoices" in page 39 to learn how the CFO application will write off the uncollectible part of the receivable.
- Second: if you have entered the factoring discount fees charged by your factor the CFO Application will record:
 - A debit to the Factoring Discount Fee ("Factoring Discount") account for the amount charged as factoring discount fee.
 - A credit to the Factoring Reserve ("Factoring Holding") account for the same amount.

Account	Debit	Credit
Factoring Discount	300	
Factoring Holding Account		300

Make General Journal Entries

Main Reports

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

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

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

RECORDING FACTORING ACCOUNT EXPENSES AND ADMINISTRATIVE FEES

Recording Factoring General Expenses

Whenever your company is informed by the factor that a miscellaneous fee has been discounted from the reserve account, you need to go to the Reserve screen and input the factoring account expenses as follows:

Click on the “Enter Account Expenses” button.

FACTORIZING RESERVE

Current Reserve Balance: \$ 89,253.50

Date	Item	Amount	
04/06/2016	Account Expenses	(32.00)	Reverse
04/26/2016	Collections	2,000.00	
04/26/2016	Collections	(150.00)	
04/25/2016	Charge Back	(1,500.00)	
04/25/2016	Collections	(20.00)	
04/25/2016	Administrative Fee	(26.50)	Reverse
04/24/2016	Release	(5,000.00)	Reverse
03/27/2016	Beginning Balance	94,082.00	

Buttons: Release Reserve, Enter Account Expenses, Enter Administrative Fees

Annotations: Download/Print Statement, Transfer reserve amounts to bank account, Record expenses, Record Factoring Administrative Fees, Reverse Recording

The following pop-up window will open.

ACCOUNT EXPENSES

Enter Expense Date: 04/26/2016

Enter Fee Amount: 22

Buttons: Add Another, Save, Cancel

Annotations: Pick expense date, Insert expense amount, Click to save

- Click on the “Enter Expense Date” drop-down and pick the expense date in the calendar.
- Then insert the expense amount in the “Enter Fee Amount” field.
- When done click on “Save”.

Once the expense is saved, the CFO application will automatically perform the entries required to record the expense in QuickBooks.

Data pulled from the CFO Application (inserted by you in the account expenses pop-up)

- Account expense date
- Account expense amount

QuickBooks Accounts to use

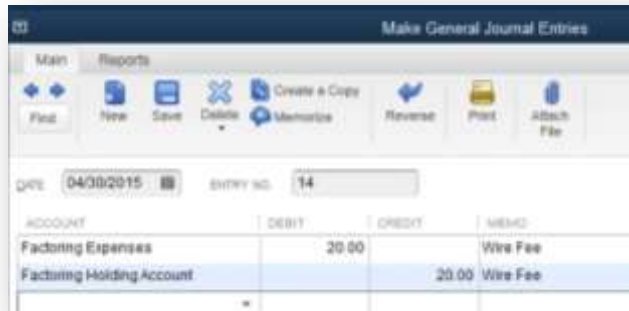
- Factoring General Expenses
- Factoring Reserve

To deduct the factoring account expenses from the Reserve Account, the CFO Application will record:

1. A debit to the Factoring General Expenses (“Factoring Expenses”) account for the amount charged.
2. A credit to the Factoring Reserve (“Factoring Holding”) account for the same amount.

Example: Factoring expense - \$20 wire fee

Account	Debit	Credit
Factoring Expenses	20	
Factoring Holding Account		20



Recording Administrative Factoring Fees

Whenever your company is informed by the factor that an administrative fee has been discounted from the reserve account, you need to go to the Reserve screen and input the factoring administrative fees as follows:

Click on the “Enter Administrative Fees” button.

FACTORING RESERVE Download/Print Statement

Current Reserve Balance: \$ 89,253.50

Date	Item	Amount	
04/26/2016	Account Expenses	(22.00)	Reverse
04/26/2016	Collections	2,000.00	
04/26/2016	Collections	(150.00)	
04/25/2016	Charge Back	(1,500.00)	
04/25/2016	Collections	(20.00)	
04/25/2016	Administrative Fee	(36.50)	Reverse
04/24/2016	Release	(5,000.00)	Reverse
03/27/2016	Beginning Balance	94,082.00	

Transfer reserve amounts to bank account

Record expenses

Record Factoring Administrative Fees

Reverse Recording

The following pop-up window will open.

- Click on the “Enter Fee Date” drop-down and pick the fee date in the calendar.
- Then insert the fee amount in the “Enter Fee Amount” field.
- When done click on “Save”.

Once the fee is saved the CFO application will automatically perform the entries required to record the charge in QuickBooks.

Data pulled from the CFO Application

- Factoring administrative fee date
- Factoring administrative fee amount

QuickBooks Accounts to use

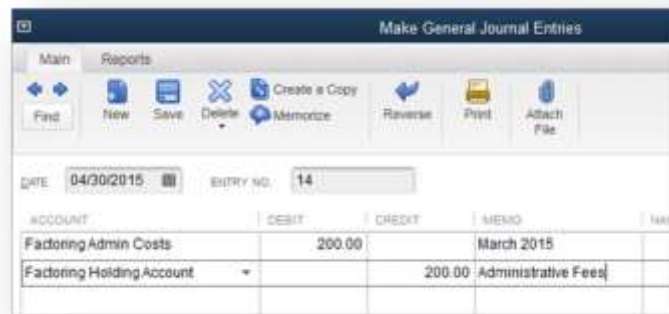
- Factoring Administrative Fees
- Factoring Reserve

To deduct the fee from the Reserve Account the CFO Application will record:

1. A debit to the “Factoring Administrative Fees” account for the amount charged.
2. A credit to the Factoring Reserve (a.k.a. Factoring Holding) account for the same amount.

Example: \$200 admin fee

Account	Debit	Credit
Factoring Administrative Fees	200	
Factoring Reserve		200



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 need to go to the Reserve screen and input the reserve release as follows:

Click on the “Release Reserve” button.

FACTORING RESERVE

Download/Print Statement

Current Reserve Balance: \$ 89,253.50

Date	Item	Amount	
04/26/2016	Account Expenses	(22.00)	Reverse
04/26/2016	Collections	2,000.00	
04/26/2016	Collections	(150.00)	
04/25/2016	Charge Back	(1,600.00)	
04/25/2016	Collections	(20.00)	
04/25/2016	Administrative Fee	(36.50)	Reverse
04/24/2016	Release	(5,000.00)	Reverse
03/27/2016	Beginning Balance	94,082.00	

Transfer reserve amounts to bank account

Release Reserve

Enter Account Expenses

Enter Administrative Fees

Record expenses

Reverse Recording

Record Factoring Administrative Fees

The following pop-up window will open.

RELEASE RESERVES

Enter Release Date

04/24/2016

Pick release date

Enter Release Amount

5000

Insert amount released

Add Another

Save

Cancel

Click to save

- Click on the “Enter Release Date” drop-down and pick the release date in the calendar.
- Then insert the amount released in the “Enter Release Amount” field.
- When done click on “Save”.

Once the reserve release amount is saved, the CFO application will automatically perform the entries required to record the transfer of funds from your reserve account to your bank account in QuickBooks.

Data pulled from the CFO Application (inserted by you at the reserve release pop-up)

- Reserve release date

- Reserve release amount

QuickBooks Accounts to use

- Bank Checking Account
- Factoring Reserve

To record the transfer of funds, the CFO Application will:

1. Debit to the “Bank Checking Account” for the amount released.
2. Credit to the Factoring Reserve (“Factoring Holding”) account for the same amount.

Example: \$20000 reserve release

Account	Debit	Credit
Bank Checking Account	20000	
Factoring Holding Account		20000

The screenshot shows the 'Make General Journal Entries' window in QuickBooks. The date is set to 04/30/2015 and the entry number is 15. The journal entry is as follows:

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

NON-FACTORED INVOICE COLLECTIONS

When the factoring company informs you that a non-factored invoice has been totally or partially collected you can go to the Non-Factored screen and mark the invoice as collected as follows:

Click on the “down” arrow on the “Collection Status” column and a drop-down menu will show up.



Click on “Collected”.



The following pop-up window will open.

MARK COLLECTED

Insert amount collected

Invoice #	Customer	Enter Collection Date	Enter Collection Amount	If partially-collected do not write-off debt
2015-71	Carrot Inc	03/24/2017	800,000.00	<input type="checkbox"/>

Pick the collections date →

Click on save →

Check if you don't want uncollectible debt to be written-off (accounting module)

Save Cancel

- Click on the “Enter Collection Date” drop-down and pick the collection date on the calendar.
- In the “Enter Collection Amount” column input the amount collected (total or partial amount)
- In the “If partially collected do not write off debt” column check this box if you do not want the system to perform the journal entries required to write off the amounts of debt not collected. If this box is not checked the system will write off the debt.
- When done click on “Save”. Your invoices will now be marked as collected (or partially collected).

Once a non-factored invoice is marked as totally or partially collected, the CFO application will automatically perform the entries required in QuickBooks to record the collection.

Data pulled from the CFO Application (inserted by you in the Non-Factored area)

- Invoice collection date
- Invoice collected amount

QuickBooks Accounts to use

- Accounts Receivable
- Factoring Reserve

How does the collection process work?

The factoring company receives the payment for your non-factored invoices and keeps the collected amount in the reserve account until they are released according to your factoring agreement. The CFO application will record the payment to the factoring reserve account and input the amount received to the invoice in QuickBooks. Lastly, if the invoice has been partially collected, unless you have checked the “If partially collected do not write off debt” box, the application will also write off the unpaid part of the receivable to take it out of the books.

To enter the collection of a non-factored invoice the CFO Application will record:

1. A debit to the Factoring Reserve account for the amount collected.
2. A credit to your “Accounts Receivable” account for the same amount.

Example I – Full Collections

- Non-Factored invoice amount: \$800
- Collected amount: \$800

Account	Debit	Credit
Factoring Reserve Account	800 (*)	
Accounts Receivable		800(*)

Example II – Partial Collections

- Non-Factored invoice amount: \$800
- Collected amount: \$600

Account	Debit	Credit
Factoring Reserve Account	600 (*)	
Accounts Receivable		600(*)

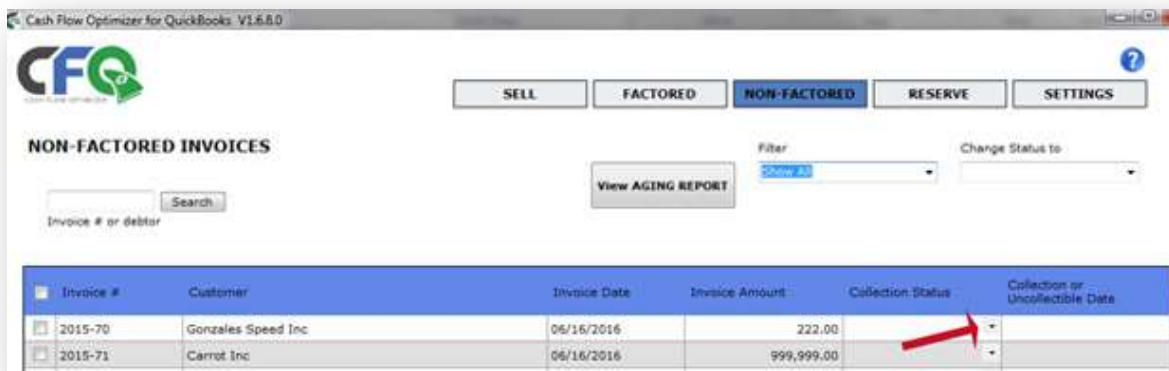
(*) Amount Collected

To write off the debt: Please see section “Dealing with Bad Debts from Non-Factored Invoices” in page 39 to learn how the CFO application will write off the uncollectible part of the receivable.

Recording Uncollectible Invoices

Whenever you realize that a non-factored invoice will not be collected you can go to the Non-Factored screen and mark the invoice as uncollectible as follows:

Click on the “down” arrow on the “Collection Status” column and a drop-down menu will show up.



Click on “Uncollectible”.



The following pop-up window will open.

UNCOLLECTIBLE

Invoice #	Customer	Enter Uncollectible Date	If partially-collected do not write-off debt
2015-96	Lucas Hopke	03/24/2017	<input type="checkbox"/>

Check if you don't want uncollectible debt to be written-off (accounting module)

Pick the uncollectible date

Click on save

Save Cancel

Today: 3/24/2017

- Click on the “Enter Uncollectible Date” drop-down and pick the date you realized that the invoice will not be collected on the calendar.
- In the “if partially collected do not write off debt” column check this box if you do not want the system to perform the journal entries required to write off the debt not collected. If this box is not checked the system will write off the debt.
- When done click on “Save”. Your invoice will now be marked as uncollectible.

To write off the debt: Please see section “Dealing with Bad Debts from Non-Factored Invoices” in page 39 to learn how the CFO application will write off the uncollectible amounts.

DEALING WITH BAD DEBTS FROM UNPAID AND PARTIALLY PAID INVOICES

Unless you have checked the “If partially collected do not write off debt” box, the CFO application will automatically perform the journal entries required to write off the amount unpaid right after a partial invoice collection or an uncollectible status has been recorded,.

The CFO application will write off your uncollectible debt from unpaid invoices to the “Allowance for Bad Debts” or to the “Bad Debt Expense” account depending on the Bad Debt accounting treatment you have defined at the “Settings” area as follows:

1. A debit to the “Allowance for Bad Debts” or “Bad Debt Expenses” account for the amount unpaid.
2. A credit to the “Account Receivable” account for the amount unpaid to take the receivable off of your books and write off the amount as bad debt.

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

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

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 Reserve Account: this account keeps the balance of cash held at the factoring company's reserve account and is used as a temporary substitute for the bank checking account when invoices are collected by the factoring company.

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 Advance: account used to record the advance provided by the factor to the client, when the client decides to treat factoring as a loan instead as the sale of receivables.

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>