
Accounting Module Guide for CFO Application for QuickBooks



**Treating Factoring Advances as Payments for the Sale
of Receivables – Non- Recourse Factoring**

Version 1.3

April 3rd, 2017

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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)

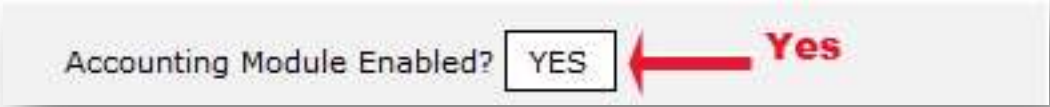
Treat advance as a Loan: "NO"

Factoring With Recourse: "NO"

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

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

Accounting Treatment of Factoring Advances

In this guide we'll be treating factoring advances as payments for the sale of receivables to the factor. Be sure to set the option "Treat advance as a loan" to "NO"



Treat advance as a loan? ← Set to "NO"

Defining Your Factoring Account Settings

These groups of settings that 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

Advance Rate (%) [Change](#)

Rate Effective Date Please define [Change](#)

Factoring With Recourse [Change](#)

Status Effective Date Please define [Change](#)

Click to change rate & date

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.

NEW ADVANCE RATE

Enter Rate Effective Date

Enter New Rate(%)

May, 2016

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----|-----|-----|-----|-----|-----|-----|
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | 1 | 2 | 3 | 4 |

Today: 5/25/2016

Click on save

Input your rate

Pick your rate agreement date

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 without recourse set it to “NO”. 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.

ACCOUNT SETTINGS

Non-Recourse Factoring Set to "NO"

Factoring With Recourse NO

NEW FACTORING STATUS

Enter New Status Effective Date: 05/25/2016

Are you Factoring with recourse? YES

May, 2016

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----|-----|-----|-----|-----|-----|-----|
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | 1 | 2 | 3 | 4 |

Today: 5/25/2016

Click on Save Save Cancel

Click to change YES/NO

Pick your agreement date

If you are factoring without recourse (non-recourse factoring) set it to “No” and then read the “CFO Application for QuickBooks Accounting Module Guide - Treating Factoring Advances as Payments for the Sale of Receivables – Recourse Factoring” instead of this one.

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.

Be sure to read your factoring agreement and ask your accountant or bookkeeper to read the following guides, “Accounting Module - Treating Factoring Advances as Payments for the Sale of Receivables –Recourse Factoring” and “Accounting Module - Treating Factoring Advances as Payments for the Sale of Receivables – Non-Recourse Factoring”, in detail before deciding your company’s setting for this option.

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 | YES | ← Click to change YES/NO |
| Uncollectible Receivables Estimate (%) | 5 | ← Input % |

- **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, you may need to create them 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)
- Amounts Due From Factor (Type: Other Current Assets)
- 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:

CHART OF ACCOUNTS

Let us know what accounts you use for:


| | |
|-------------------------------|--------------------------------|
| Bad Debts Expense | Bad Debts Expense |
| Sales Discounts | Please Create One |
| Bank Checking Account | Advertising and Promotion |
| Accounts Receivable | Automobile Expense |
| Allowance for Bad Debts | Bad Debts Expense |
| Factoring Reserve | Bank Service Charges |
| Factoring Discount Fee | Computer and Internet Expenses |
| Factoring Administrative Fees | Depreciation Expense |
| Factoring General Expenses | Factoring Admin Fees |
| Amounts Due From Factor | Factoring Discount |
| | Factoring Expenses |
| | Insurance Expense |
| | Interest Expense |
| | Meals and Entertainment |
| | Office Supplies |
| | Payroll Expenses |
| | Professional Fees |
| | Rent Expense |
| | Repairs and Maintenance |
| | Telephone Expense |
| | Travel Expense |
| | Utilities |

Pick one from the list or create a new 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 Extracted from your QuickBooks
or created by the system

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="Due From Factor"/> | ▼ |
| Factoring Liability | <input type="text"/> | ▼ |

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 Liquidation 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)

- Accounts Receivable
- Bank Checking Account
- Amounts Due From Factor

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: $\$10,000 \times 0.03 = 300$

Your uncollectible receivables estimate: 5%

- Uncollectible Receivables Estimate amount: $\$10,000 \times 0.05 = 500$

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 (this is the amount that your factoring company advances when the invoices is purchased).
- 2- A debit to the Amounts Due from Factor (“Due from Factor”) account for the amount not yet advanced (Invoice amount minus advanced amount).
- 3- A credit to your Accounts Receivable account for the invoice amount.


VERY IMPORTANT: The invoice will now show as Paid in your QuickBooks income tracker and QuickBooks aging reports, you won't be able to track the aging of factored invoices in QuickBooks anymore. To track its aging you now need to view the "Factored Invoices Aging Report" in the Factored Area of the CFO Application.

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

After recording this transaction, the receivable will be taken off your books for its total amount, your "Bank Checking Account" balance will increase by \$8,000, and the "Due from Factor" account will increase by \$2,000.

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

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 | | | | | | | | |

FACTORING INVOICES: RECORDING INVOICE COLLECTIONS

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 as it would do in the case of a recourse factoring agreement.

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

| 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"/> |

March, 2017

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----|-----|-----|-----|-----|-----|-----|
| 26 | 27 | 28 | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | 31 | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |

Today: 3/24/2017

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
 - a. Amount collected equals the amount advanced by the factoring company

- b. Amount collected is more than the amount advanced
- c. Amount collected is less than the amount advanced

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 account)

- Accounts Receivable
- Bank Checking Account
- Factoring Reserve
- Amounts Due from Factor
- Factoring Discount Fee
- 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%): \$8,000

- Collected amount: \$10,000
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

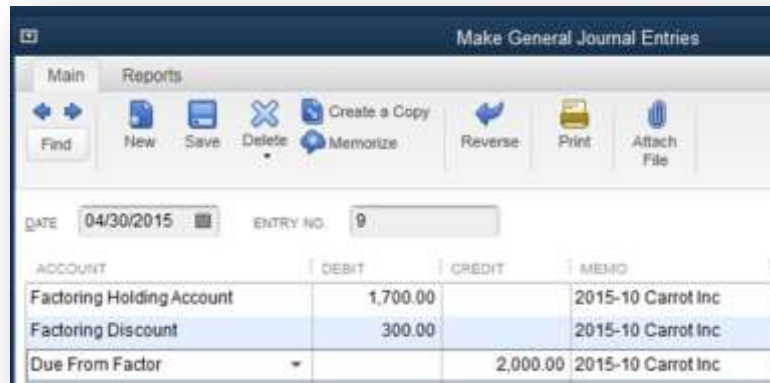
How does the collection process work?

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:

- 1- A debit to your Factoring Reserve (“Factoring Holding Account”) account for the balance due (amount not advanced) minus the factoring discount fees.
- 1- A debit to the Factoring Discount Fees (“Factoring Discount”) account for the amount charged as factoring discount fee.
- 2- A credit to your Amounts Due from Factor (“Due from Factor”) account for the amount not advanced when the invoice was purchased.

| Account | Debit | Credit |
|---|-------|--------|
| Factoring Holding Account (reserve account) | 1700 | |
| Factoring Discount | 300 | |
| Due From Factor | | 2000 |



B- Recording Partial Collections and Factoring Discount Fees

CASE a: If the amount collected equals the invoice advanced amount

Following our example

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

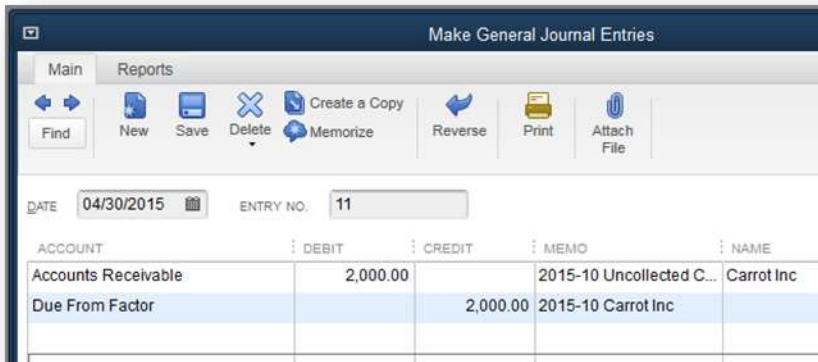
How does this partial collection process work?

For the amount of the invoice that was not collected the system will partially reverse the sale of the invoice to the factoring company. Then it will record the factoring discount fees charged by the factor to the reserve account. 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.

To partially reverse the sale the CFO Application will record:

- 1- A debit to the “Account Receivables” account for the amount not collected.
- 2- A credit to the Amounts Due form Factor (“Due From Factor”) account for the same amount (In this case the amount not collected equals the amount not advanced).

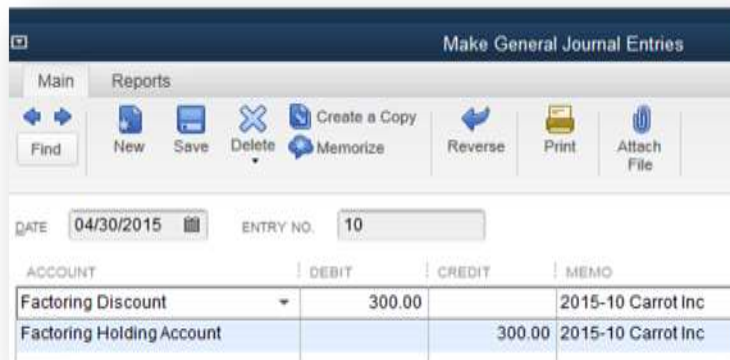
| Account | Debit | Credit |
|---------------------|-------|--------|
| Accounts Receivable | 2000 | |
| Due From Factor | | 2000 |



To enter the factoring discount fees charged by your factor, the CFO Application will record:

- 1- A debit to the Factoring Discount Fees (“Factoring Discount”) account for the amount charged as factoring discount fee.
- 2- A credit to your Factoring Reserve (“Factoring Holding “) account for the same amount.

| Account | Debit | Credit |
|---------------------------|-------|--------|
| Factoring Discount | 300 | |
| Factoring Holding Account | | 300 |



To write off the debt: Please see section “Dealing with Bad Debts from Factored Invoices” in page 30 to learn how the CFO application will write off the uncollectible part of the receivable.

CASE b: If the amount collected is more than invoice advanced amount

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8,000
- Collected amount: \$9,000
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does this partial collection process work?

For the amount of the invoice that was not collected, the system will partially reverse the sale of the invoice to the factoring company. Then the application will debit your Factoring Reserve account for the difference between the amount collected and the amount advanced.

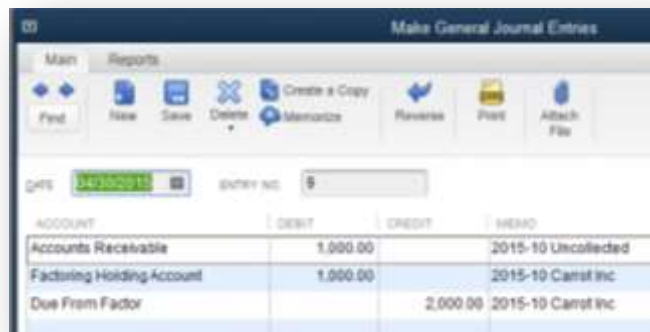
Afterward, the system will record the factoring discount fees charged by the factor to the reserve account. Lastly, unless you have checked the “If partially collected do not write off debt” box, the application will also write off the unpaid part of the receivable to take it out of the books.

To partially reverse the sale and receive the difference collected the CFO Application will record:

- 1- A debit to the “Account Receivables” account for the amount not collected.

- 2- A debit to the Factoring Reserve (“Factoring Holding”) account for the difference between the amount collected and the amount advanced.
- 3- A credit to your Amounts Due from Factor (“Due from Factor”) account for the amount not advanced.

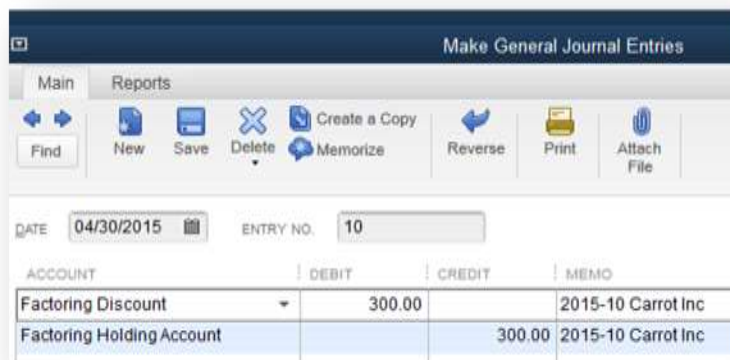
| Account | Debit | Credit |
|---------------------------|-------|--------|
| Accounts Receivable | 1000 | |
| Factoring Holding Account | 1000 | |
| Due From Factor | | 2000 |



To enter the factoring discount fees charged by your factor the CFO Application will record:

- 1- A debit to the Factoring Discount Fees (“Factoring Discount”) account for the amount charged as factoring discount fees.
- 2- A credit to your Factoring Reserve (“Factoring Holding”) account for the same amount.

| Account | Debit | Credit |
|---------------------------|-------|--------|
| Factoring Discount | 300 | |
| Factoring Holding Account | | 300 |



To write off the debt: Please see section “Dealing with Bad Debts from Factored Invoices” in page 30 to learn how the CFO application will write off the uncollectible part of the receivable.

CASE c: If amount collected is less than the invoice advanced amount

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when invoice was purchased (80%): \$8,000
- Collected amount: \$6,000
- Factoring discount fee (3% for this example): $10,000 \times 0.03 = \$300$

How does this partial collection process work?

For the amount of the invoice that was not collected, the system will partially reverse the sale of the invoice to the factoring company. Then it will credit your Factoring Reserve account for the difference between the amount advanced and the amount collected 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 unpaid part of the receivable to take it out of the books.

To partially reverse the sale and pay back the difference advanced but not collected, the CFO Application will record:

- 1- A debit to the “Account Receivables” account for the amount not collected.

- 2- A credit to the Factoring Reserve (“Factoring Holding”) account for the difference between the amount advanced and the amount collected.
- 3- A credit to the Amounts Due from Factor (“Due from Factor”) account for the amount not advanced.

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



To enter 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 your Factoring Reserve (“Factoring Holding”) account for the same amount.

| Account | Debit | Credit |
|---------------------------|-------|--------|
| Factoring Discount | 300 | |
| Factoring Holding Account | | 300 |

The screenshot displays the 'Make General Journal Entries' interface. At the top, there are tabs for 'Main' and 'Reports'. Below the tabs is a toolbar with icons for 'Find', 'New', 'Save', 'Delete', 'Create a Copy', 'Memorize', 'Reverse', 'Print', and 'Attach File'. The 'DATE' field is set to '04/30/2015' and the 'ENTRY NO.' field is set to '10'. The main area contains a table with the following data:

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

To write off the debt: Please see section “Dealing with Bad Debts from Factored Invoices” in page 30 to learn how the CFO application will write off the uncollectible part of the receivable.

RECORDING UNCOLLECTIBLE FACTORED INVOICES

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 as it would do in the case of a recourse factoring agreement.

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.

UNCOLLECTIBLE

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

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

Pick the uncollectible date

Click on save

Save Cancel

Today: 3/24/2017

- Click on the “Enter Uncollectible Date” drop-down and pick the uncollectible date in 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 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 event.

Data pulled from QuickBooks

- Invoice amount

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

- Invoice uncollectible date
- Advance amount : already calculated when invoice was purchased

QB Accounts to use

- Accounts Receivable
- Due from Factor

Following our example

- Factored invoice amount: \$10,000
- Amount advanced when the invoice was purchased (80%): \$8,000
- Collection amount: \$0 (uncollectible)

How does this partial collection process work?

The system will reverse the sale of the invoice to the factoring company only for the amount not advanced. Then it will credit the Due from Factor account for the same amount.

To reverse the sale for the amount not advanced the CFO Application will record:

- 1- A debit to the "Account Receivables" account for invoice amount minus the advanced amount.
- 2- A credit to the Amounts Due from Factor account ("Due from Factor") account for the same amount.

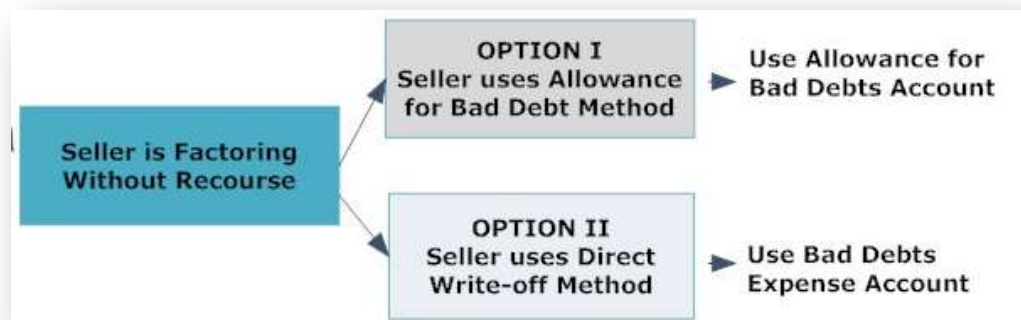
| Account | Debit | Credit |
|---------------------|-------|--------|
| Accounts Receivable | 2000 | |
| Due From Factor | | 2000 |

To write off the debt: Please see section "Dealing with Bad Debts from Factored Invoices" in page 30 to learn how the CFO application will write off the uncollectible part of the receivable.

DEALING WITH BAD DEBTS FROM FACTORED INVOICES

Unless you have checked the “If partially collected do not write off debt” box, right after a partial invoice collection or uncollectible has been recorded; the CFO application will automatically record the write-off of the amount unpaid.

The transactions the application will record will vary depending on the accounting method your company uses to treat bad debts.



(***)Seller = Your company**

If your company is factoring without recourse the CFO application did not perform any uncollectible receivable estimate or liability recording when the invoice was purchased by the factor. Thereof, when the invoice is marked as partially collected or uncollectible the CFO application will write off the uncollectible amounts depending on the amount collected according to the method you use to treat bad debts.

Recording depends on the amount collected

- A. **Partial collection** - the CFO application will write off the amount not collected (invoice amount minus collection amount).
- B. **Uncollectible** - The CFO application will write off the amount not advanced (invoice amount minus advanced amount). In the case of fully uncollectible invoices the system records transactions assuming that the factor has no recourse to collect from you the amount advanced.

And also depends on the Method you use for Bad Debt Treatment:

- **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 the ALLOWANCE FOR BAD DEBTS METHOD

To write off the uncollectible part of a partial collection the CFO Application will record:

Example: \$10,000 invoice, collected \$6,000

- 1- A debit to the " Allowance for Bad Debts" account for the amount uncollected.
- 2- A credit to the "Accounts Receivable" account for the same amount to take the receivable out of your books.

| Account | Debit | Credit |
|-------------------------|-------|--------|
| Allowance for Bad Debts | 4000 | |
| Accounts Receivable | | 4000 |

To write off a fully uncollectible invoice the CFO Application will record:

Example: \$10,000 invoice, collected \$0, advance 80%

- 1- A debit to the " Allowance for Bad Debts" account for the amount not advanced.
- 2- A credit to the "Accounts Receivable" account for the same amount to take the receivable out of your books.

| Account | Debit | Credit |
|-------------------------|-------|--------|
| Allowance for Bad Debts | 2000 | |
| Accounts Receivable | | 2000 |

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

To write off the uncollectible part of a partial collection the CFO Application will record:

Example: \$10,000 invoice, collected \$6,000

1. A debit to the "Bad Debts Expense" account for the amount uncollected.
2. A credit to the "Accounts Receivable" account for the same amount to take the receivable out of your books.

| Account | Debit | Credit |
|---------------------|-------|--------|
| Bad Debts Expense | 4000 | |
| Accounts Receivable | | 4000 |

To write off a fully uncollectible invoice the CFO Application will record:

Example: \$10,000 invoice, collected \$0, advance 80%

1. A debit to the "Bad Debts Expense" account for the amount not advanced.
2. A credit to the "Accounts Receivable" account for the same amount to take the receivable out of your books.

| Account | Debit | Credit |
|---------------------|-------|--------|
| Bad Debts Expense | 2000 | |
| Accounts Receivable | | 2000 |

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.

FACTORING 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

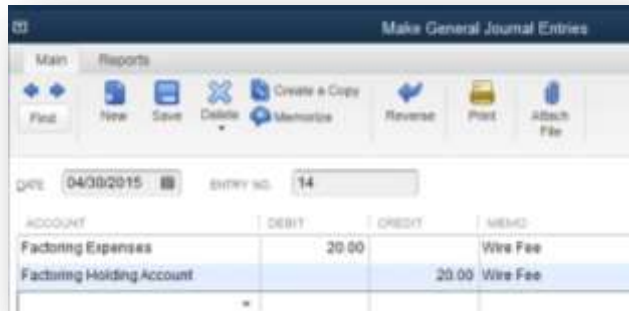
- Factoring General Expenses
- Factoring Reserve

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

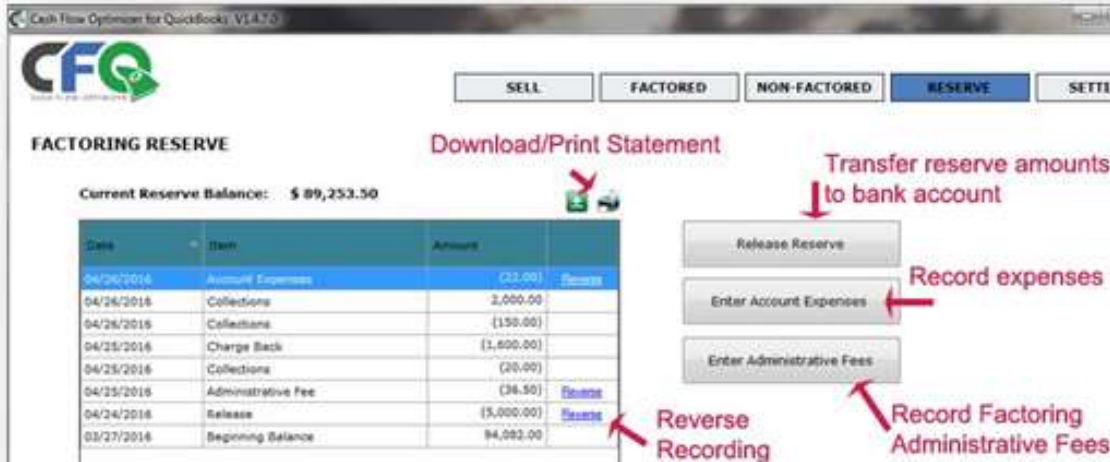
| Account | Debit | Credit |
|---------------------------|-------|--------|
| Factoring Expenses | 20 | |
| Factoring Holding Account | | 20 |



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.



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 (“Factoring Holding”) account for the same amount.

Example: \$200 admin fee

| Account | Debit | Credit |
|-------------------------------|-------|--------|
| Factoring Administrative Fees | 200 | |
| Factoring Holding Account | | 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.

The screenshot shows the 'FACTORING RESERVE' screen with a current balance of \$89,253.50. A table lists transactions from 03/27/2016 to 04/26/2016. To the right, buttons for 'Release Reserve', 'Enter Account Expenses', and 'Enter Administrative Fees' are visible. Red annotations include: 'Download/Print Statement' pointing to a document icon; 'Transfer reserve amounts to bank account' pointing to the 'Release Reserve' button; 'Record expenses' pointing to 'Enter Account Expenses'; 'Record Factoring Administrative Fees' pointing to 'Enter Administrative Fees'; and 'Reverse Recording' pointing to the 'Reverse' column in the table.

| 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 | (26.50) | Reverse |
| 04/24/2016 | Release | (5,000.00) | Reverse |
| 03/27/2016 | Beginning Balance | 94,093.00 | |

The following pop-up window will open.

The 'RELEASE RESERVES' window contains the following fields and controls:

- Release Date:** 04/24/2016 (with a calendar icon)
- Release Amount:** 5000
- Buttons:** Add Another, Save, Cancel

Red annotations include: 'Pick release date' pointing to the date field; 'Insert amount released' pointing to the amount field; and 'Click to save' pointing to the Save button.

- 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: \$20,000 reserve release

| Account | Debit | Credit |
|---------------------------|-------|--------|
| Bank Checking Account | 20000 | |
| Factoring Holding Account | | 20000 |

Make General Journal Entries

Main Reports

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

DATE 04/30/2015 ENTRY NO. 15

| 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

| 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"/> |

March, 2017

| Sun | Mon | Tue | Wed | Thu | Fri | Sat |
|-----|-----|-----|-----|-----|-----|-----|
| 26 | 27 | 28 | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | 31 | 1 |
| 2 | 3 | 4 | 5 | 6 | 7 | 8 |

Today: 3/24/2017

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, 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 (“Factoring Holding”) account for the amount collected.
- 2- A credit to your “Accounts Receivable” account for the same amount.

Example I – Full Collection

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

| Account | Debit | Credit |
|---------------------------|---------|--------|
| Factoring Holding Account | 800 (*) | |
| Accounts Receivable | | 800(*) |

Example II – Partial Collection

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

| Account | Debit | Credit |
|---------------------------|---------|--------|
| Factoring Holding 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 46 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.

Cash Flow Optimizer for QuickBooks V1.6.8.0

SELL FACTORED **NON-FACTORED** RESERVE SETTINGS

NON-FACTORED INVOICES

Filter: Show Change Status to:

View AGING REPORT

Invoice # or debtor Search

| Invoice # | Customer | Invoice Date | Invoice Amount | Collection Status | Collection or Uncollectible Date |
|-----------|--------------------|--------------|----------------|-------------------|----------------------------------|
| 2015-70 | Gonzales Speed Inc | 06/16/2016 | 222.00 | | |
| 2015-71 | Carrot Inc | 06/16/2016 | 999,999.00 | | |

Click on “Uncollectible”.

View AGING REPORT

Invoice # or debtor Search

| Invoice # | Customer | Invoice Date | Invoice Amount | Collection Status | Collection or Uncollectible Date |
|-----------|-------------|--------------|----------------|--|----------------------------------|
| 2015-71 | Carrot Inc | 06/16/2016 | 999,999.00 | | |
| 2015-96 | Lucas Hopke | 07/19/2016 | 555,555.00 | | |
| 2015-112 | Broke Corp | 07/25/2016 | 333,333.00 | Collected Uncollectible Pre-Recorded | |
| 2015-60 | Tom Tom | 04/15/2016 | 100,000.00 | | |

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 46 to learn how the CFO application will write off the uncollectible amounts.

DEALING WITH BAD DEBTS FROM NON-FACTORED INVOICES

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

The CFO application will write off your uncollectible debt from non-factored 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 out 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 Holding 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.

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.

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>