

Title:

Why Is Factoring Important In Business?

Word Count:

442

Summary:

A business venture can experience cash shortage or difficulty in being liquid even if it has receivables and steady assets that are more than its payables and other liabilities.

There are easy solutions to cash shortage just so a business enterprise can meet its short term obligations like payroll. Among these solutions include loans or short-term borrowing and factoring accounts. Factoring accounts can be done for accounts that are expected to be received by a company dur...

Keywords:

business, finance, factoring

Article Body:

A business venture can experience cash shortage or difficulty in being liquid even if it has receivables and steady assets that are more than its payables and other liabilities.

There are easy solutions to cash shortage just so a business enterprise can meet its short term obligations like payroll. Among these solutions include loans or short-term borrowing and factoring accounts. Factoring accounts can be done for accounts that are expected to be received by a company during a certain period.

A person who wants to avail of credit through the factoring of his accounts receivable must submit an application form which will then be reviewed by the agency concerned. Once approved, the applicant should consider the terms of the loan proposal and wait for a maximum of seven days within which the agency will conduct a credit investigation. The investigation will cover the applicant's credit status, tax payments and liens as well as any pending criminal case.

After which, the applicant must submit the original invoices of services rendered or goods delivered. Once the invoices are verified, a fund amounting to about eight percent of the total invoice will be approved and advanced to the applicant. The balance will be held until the invoices are fully paid.

Payments for services rendered and goods delivered will be sent directly to the

credit agency which will in turn release the balance of the total invoice less the appropriate payments for their services.

Getting short term financing through factoring of the accounts receivable of a business enterprise can be easily availed of even through the internet. There are credit agencies that have made the process easier by making forms available online. By filling up the form online the applicant can have his accounts receivable assessed before he speaks to a credit representative.

Companies selling services as well as distributors selling products are eligible for the factoring of their accounts receivable provided the services have already been rendered and the goods already delivered.

This method of accessing easy funding is commonly used by trucking companies who have thousands of accounts receivables in the form of freight bills. However, these companies have to pay their truckers as well as pay business overheads so they cannot wait for a month or more for these bills to be liquidated.

Factoring is an easier way to get additional funding for business compared to the traditional financing methods which require lots of paperwork and long waiting periods. With a meager amount deducted by credit agencies from the invoices, usually one to six percent, small business can already add to their cash flow and can run their businesses efficiently.