How to Record Invoice Factoring Transactions on QuickBooks
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INTRODUCTION

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

Our Example

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

Factored invoice amount: $10,000

Your company’s factoring advance rate: 80%

Your company’s factoring discount fees: 3%

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

A few notes:

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

Enjoy!
**Chart of Accounts: Accounts You’ll Need**

**Existing accounts**

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

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

**New accounts for factoring**

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

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

(*)Note: See Annex A for detailed explanation of accounts and Allowance for Bad Debts and Direct Write-off Methods
**STEP 1: ADDING NEW ACCOUNTS TO THE CHART OF ACCOUNTS**

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

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

![Chart of Accounts window](image-url)
Creating Accounts Needed for Factoring

Factoring Holding Account

[Image of Edit Account window with Account Type set to Bank, Account Name set to Factoring Holding Account, Description set to Balance of factored and non-factored invoices held at factoring company’s reserve account, Tax-Line Mapping set to Unassigned, and options for setting up bank feeds and saving or canceling the account.]
Due From Factor

Account Type: Other Current Asset

Account Name: Due From Factor

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

Account No.

Tag-Line Mapping: Unassigned

How do I choose the right tax line?

Enter Opening Balance...

Should I enter an opening balance?
Factoring Discount Fees

- Account Type: Expense
- Account Name: Factoring Discount
- Description: Discount rate paid to factoring company for factoring services
- Tax Line Mapping: Unassigned

Questions:
- How do I choose the right tax line?
Factoring Administrative Fees

Account Type: Expense

Account Name: Factoring Admin Fees

Description: Administrative costs paid to factoring company for services

Tag-Line Mapping: Unassigned

How do I choose the right tax line?
General Factoring Expenses

Account Type: Expense

Account Name: Factoring Expenses

Optional:
- Description: General expenses, such as wire fees, mailing fees, etc paid to factoring company

Save & Close  Save & New  Cancel
Factoring Recourse Liability Account

![Add New Account Window](image)

- Account Type: Other Current Liability
- Account Name: Factoring Recourse Liability
- Description: Recourse obligation estimate for uncollectible factored invoices
- Account No.
- Routing Number
- Tax-Line Mapping: Unassigned

Options:
- How do I choose the right tax line?
- Should I enter an opening balance?
STEP 2: SELLING INVOICES TO THE FACTORING COMPANY

1- Recording the Sale of an Invoice

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

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

Recording the sale of a receivable

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Checking Account</td>
<td>8000</td>
<td></td>
</tr>
<tr>
<td>Due From Factor</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>10000</td>
</tr>
</tbody>
</table>

Recording this transaction on Quickbooks

a. Go to the invoice list and choose the invoice sold.
When the invoice’s window opens go to “Receive Payments” and enter a payment for the amount advanced.

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

b. Go to “Receive Payments”
c. Record a payment for the advance amount to the Bank Checking Account
   Enter a $8000 payment (advanced amount)
The difference between the Invoice amount and the advanced amount, in our example $2000, needs to be applied to the “Due From Factor” account.

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

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

- On the invoice’s window click on “Discounts and Credits” on the top menu.
- Go to the “Discount” tab.
- Include the amount Due from Factor in the “Amount of Discount” field.
- Choose the “Due From Factor” account as Discount Account.
- Click on Done
After recording this transaction, the receivable will be taken off your books, your “Bank Checking Account” balance will increase by $8000, and the “Due From Factor” account will increase by $2000.
2- Factoring With Recourse: Recording the Liability to the Factoring Company

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

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

**OPTION I - YOUR COMPANY USES ALLOWANCE FOR BAD DEBTS METHOD**

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

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Bad Debts</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Factoring Recourse Liability</td>
<td>500</td>
<td></td>
</tr>
</tbody>
</table>

**Recording this transaction on QB**

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount multiplied by the Uncollectible Receivables Estimate (%) to the Allowance for Bad Debts account

c. Record a credit for the same amount to the Factoring Recourse Liability account
OPTION 2- YOUR COMPANY USES DIRECT WRITE-OFF METHOD

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

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Debts Expense</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Factoring Recourse Liability</td>
<td></td>
<td>500</td>
</tr>
</tbody>
</table>

Recording this transaction on QB

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount multiplied by the Uncollectible Receivables Estimate (%) to the Bad Debts Expense account
c. Record a credit for the same amount the Factoring Recourse Liability account
STEP 3: INVOICE COLLECTED BY THE FACTORING COMPANY

FACTORED INVOICES: INVOICE COLLECTION

A - Recording Full Collections and Factoring Discount Fees

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

Recording the payment & discount fees

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Holding Account</td>
<td>1700</td>
<td></td>
</tr>
<tr>
<td>Factoring Discount</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>Due From Factor</td>
<td></td>
<td>2000</td>
</tr>
</tbody>
</table>

Recording this transaction on QB

1. Go to Make General Journal Entries
b. Record a debit for the Invoice reserve amount (invoice amount minus advanced amount) minus the Discount Fee to the Factoring Holding account
c. Record a debit for the Discount Fee to the Factoring Discount account
d. Record a credit for the invoice reserve amount to the Due from Factor account
B- Recording Partial Collections and Factoring Discount Fees

B1- Recording Partial Collections

CASE I: If amount collected equals invoice advanced amount

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

Partially reversing the sale

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>Due From Factor</td>
<td></td>
<td>2000</td>
</tr>
</tbody>
</table>

Recording this transaction on QB

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
c. Record a credit for the invoice reserve amount to the Due From Factor account
CASE II: If payment amount is higher than invoice advance amount

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

Partially reversing the sale & receiving positive difference

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>Due From Factor</td>
<td></td>
<td>2000</td>
</tr>
</tbody>
</table>

**Recording this transaction on QB**

a. Go to Make General Journal Entries  
b. Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account  
c. Record a debit for the collected amount minus the advance amount to the Factoring Holding account  
d. Record a credit for the invoice reserve amount to the Due From Factor account
CASE III: If payment amount is lower than invoice advance amount

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

Partially reversing the sale & paying back the difference

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>4000</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>Due From Factor</td>
<td></td>
<td>2000</td>
</tr>
</tbody>
</table>

Recording this transaction on QB

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount minus the collected amount to the Accounts Receivable account
c. Record a credit for the advance amount minus the collected amount to the Factoring Holding Account
d. Record a credit for the invoice reserve amount to the Due From Factor account
B2- Recording the Factoring Discount Fees

Recording the discount fees

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Discount</td>
<td>300(∗)</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td></td>
<td>300(∗)</td>
</tr>
</tbody>
</table>

(∗example) Discount fee amount

Recording this transaction on QB

a. Record a debit for the discount fee to the Factoring Discount account
b. Record a credit for the same amount to the Factoring Holding account
NON-FACTORED INVOICES: INVOICE COLLECTION

Recording Full or Partial Payments

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

Recording a payment

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Holding Account</td>
<td>174 (*)</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>174(*)</td>
</tr>
</tbody>
</table>

(*) Amount Collected

Recording this transaction on QB

a. Open the invoice information (receive payments)

b. Record a payment for the collected amount to the Factoring Holding Account
STEP 4: UNCOLLECTIBLE FACTORED INVOICES

DEALING WITH CHARGE-BACKS

Recording Factored Invoice Charge-Backs

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

Reversing the sale and paying back amount advanced

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>Due From Factor</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td>8000</td>
<td></td>
</tr>
</tbody>
</table>

Recording this transaction on QB

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

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

Recording the discount fees

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Discount</td>
<td></td>
<td>300(*)</td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td></td>
<td>300(*)</td>
</tr>
</tbody>
</table>

(*example) Discount fee amount
Recording this transaction on QB

   c. Record a debit for the discount fee to the Factoring Discount account
   d. Record a credit for the same amount to the Factoring Holding account
DEALING WITH BAD DEBTS FROM FACTORED INVOICES

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

Seller = Your company

Our example: $10000 invoice, collected $6000

A- If your company is Factoring with Recourse

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Recourse Liability</td>
<td>4000 (*)</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>4000 (*)</td>
</tr>
</tbody>
</table>

(*example) Uncollectible amount = Invoice amount minus collected amount
Recording this transaction on QB

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

![General Journal Entries screenshot]
B- If your company is Factoring Without Recourse

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

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

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

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Bad Debts</td>
<td>4000 (*)</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>4000(*)</td>
</tr>
</tbody>
</table>

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

Recording this transaction on QB

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount minus the collected amount to the Allowance for Bad Debts account
c. Record a credit for the same amount to the Accounts Receivable account
OPTION II- If your company uses DIRECT WRITE-OFF METHOD

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad Debts Expense</td>
<td>4000</td>
<td>(*)</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>4000</td>
<td>(*)</td>
</tr>
</tbody>
</table>

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

**Recording this transaction on QB**

a. Go to Make General Journal Entries
b. Record a debit for the invoice amount minus the collected amount to the Bad Debts Expense account
c. Record a credit for the same amount to the Accounts Receivable account
**STEP 5: RECORDING ACCOUNT CHARGES AND FEES**

**Recording Factoring Expenses**

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

Our example: $20 wire fee

Recording the factoring expenses

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Expenses</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td></td>
<td>20</td>
</tr>
</tbody>
</table>

**Recording this transaction on QB**

a. Record a debit for the factoring expense to the Factoring Expenses account
b. Record a credit for the same amount to the Factoring Holding account
Recording Administrative Factoring Fees

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

Example: $200 admin fee

Recording the administrative fees

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factoring Administrative Fees</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>

Recording this transaction on QB

a. Record a debit for the factoring administrative fees to the Factoring Administrative Expenses account
b. Record a credit for the same amount to the Factoring Holding account
**Step 6: Recording Reserve Releases**

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

Our example: $20000 reserve release

**Recording a reserve release**

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Checking Account</td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>Factoring Holding Account</td>
<td></td>
<td>20000</td>
</tr>
</tbody>
</table>

**Recording this transaction on QB**

a. Record a debit for the amount released to the Bank Checking account
b. Record a credit for the same amount to the Factoring Holding account
ANNEX A: EXPLANATION OF ACCOUNTS

Bank Checking Account: the bank account your company uses to make and receive payments.
Accounts Receivable: invoices from sales not yet collected.
Sales Discounts: account or accounts used to record discounts on sales.

Factoring Holding Account: account used as a temporary substitute of the bank checking account when invoices are collected by the factoring company. It keeps the balance of cash held at the factoring company’s reserve account.
Due From Factor: balance the factoring company owes your company for the purchase of a receivable pending debtor payment.
Factoring Discount Fee: account used to record invoice-related discount fees charged by the factoring company at the time of invoice collection or charge-backs.
Factoring Administrative Fee: account used to record account-related fees charged by the factoring company based on account outstanding balance (usually a rate charged on the balance of unpaid factored invoices).
Factoring Expenses: account used to record miscellaneous factoring expenses such as wire fees, mailing fees, etc.
Factoring Recourse Liability: account used by companies when factoring with recourse to record an estimated liability to the factoring company in case invoices sold are not collected.

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

Accounting Techniques of Bad Debts Treatment

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

Direct Write-Off Method: accounts receivable are directly written-off against income when they are actually classified as uncollectible debts.
Looking for a new factoring company? Here are the benefits that only Gateway can offer your company

High Customer Satisfaction

We truly care about your business. Our customer retention rate is almost TWICE (1.9 times) the industry average. Our customers value our services and stay with us much longer.

Direct Access to Decision Makers

Because the company’s owners are also the managers, from your first call, you’ll work directly with a decision maker. No brokers, no sales people, no credit committee, no underwriters, simply…. straight answers and fast decisions!

Fast and Reliable Funding

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

We Protect Your Business’ Reputation

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

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

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

1-855-424-2955
Gatewaycfs.com