



Factoring of Debtors

Support Notes

This support note is suitable for :

- MYOB Accounting
- MYOB Premier
- MYOB Premier Plus

Introduction

For companies that have high levels of debtors, it is becoming common for them to have their debts factored by an outside entity. Normally the finance company or entity that will purchase the debts will pay the company the value of the debtors less a charge or fee. This support note explains how this would be reflected in your MYOB company file.

How do I show the purchase of the debtors and payments by the factoring company?

Example:

- Company ABC has \$10,000 worth of debtors that will be factored.
- Company XYZ will purchase these debtors, and pay Company ABC in two stages: 70% and then 25%, the remaining 5% being the charge.

ABC Ltd will need to close the individual debtors that are in their debtor's ledger and allocate them to the one Factoring entity's account.

Step 1 - Set up the factoring account

ABC needs to set up an account with **Bank** privileges in the **ASSET** section of the chart of accounts:

1. Go to the **Accounts** command centre and click **Account List**.
2. Select the **Asset** tab and click **New**.

3. Make sure you select **Bank** in the **Account Type** drop-down menu.
4. Give the account a unique number that suits your account list.
5. Name the account Factoring Cheque Account.
6. Click **OK**.

The screenshot shows the 'MYOB Premier - [Edit Accounts]' window. The 'Profile' tab is selected, and the account details for '1-1701 Factoring Clearing Account' are displayed. The 'Account Type' is set to 'Bank', and the 'Account Name' is 'Factoring Clearing Account', which is highlighted with a red box. Other fields include 'Account Classification: Asset', 'Account Number: 1 - 1701', and 'Opening Balance: \$0.00'. The 'Current Balance' field is empty. The window also shows a menu bar with 'File', 'Edit', 'Lists', 'Command Centres', 'Setup', 'Reports', 'Window', and 'Help'.

Step 2 - Close off the debtors to be factored

Go to the **Customer Payments** screen in the **Sales** module. Select one of the debtors and enter the factored amount for that debtor in the **Amount Received** and **Amount Applied** fields as in the window below. Ensure that you select the new account created in step 1 - 'Factoring Cheque Account' at the top left of this screen.

MYOB Premier - [Receive Payments]

File Edit Lists Command Centres Setup Reports Window Help

Deposit to Account: 1-1701 Factoring Clearing Account Balance ⇄: \$0.00

Group with Undeposited Funds:

Customer ⇄: Flynn's Trading ID #: CR000001

Amount Received: [] Date: 09/12/2008

Payment Method: [] Details...

Memo: Payment; Flynn's Trading

Cust PO#	Status	Date	Amount	Discount	Total Due	Amount Applied
	⇄ Open	09/12/2008	\$3,444.00		\$3,444.00	

Use the General Ledger [Summary] report to see the total value of the factored debtors outstanding. These will be shown in the Factoring Account Debit column of the report.

How do I record receiving payment from the factoring entity?

When Company XYZ pays Company ABC the first 70% of the factored debtors, the payment should be entered through the **RECEIVE MONEY** screen in the **Banking** command centre. The account selected at the top left should be your cheque account or the account that the payment will be deposited into. The **allocation account** would be the Factoring Cheque Account set up earlier. When the Company pays the other 25%, the same procedure would be followed.

MYOB Premier - [Receive Money]

File Edit Lists Command Centres Setup Reports Window Help

Deposit to Account: 1-2110 Cheque Account Balance ⇄: \$0.00

Group with Undeposited Funds: Tax Inclusive

Payor ⇄: Company XYZ ID #: CR000001

Amount Received: \$3,675.00 Date: 09/12/2008

Payment Method: [] Details...

Memo: Company XYZ

Acct #	Name	Amount	JOB	Memo	Tax
1-1701	Factoring Clearing Account	\$3,675.00			N-T

In the **General Ledger [Summary]** report these payments will be shown on the Credit side. The net amount will be the factoring charge.

Note: There is no GST in this transaction.

How do I show the factoring charges?

To show the 5% fee charged by the Factoring Entity, enter a transaction through the **SPEND MONEY** screen as below. The account in the top left would be the Factoring Cheque account and the Allocation account would be an expense account (6-****) called Factoring Charges.

The screenshot shows the MYOB Premier - [Spend Money] window. The top menu bar includes File, Edit, Lists, Command Centres, Setup, Reports, Window, and Help. The main form has the following fields:

- Account: 1-1701 Factoring Clearing Account (highlighted with a red box)
- Balance: \$0.00
- Tax Inclusive:
- Card: [empty]
- Cheque No.: 1
- Payee: [empty]
- Date: 09/12/2008
- Amount: \$288.75
- Text: Two Hundred Eighty-Eight Singapore Dollars and Seventy-Five Cents Only
- Memo: [empty]

Below the form is a table with the following data (the first row is highlighted with a red box):

ACCT #	Name	Amount	JOB	Memo	TAX
6-1125	Factoring Charge	\$288.75			GST

The charge will be shown on the Credit column of the **General Ledger [Summary]** report. Once the additional 25% of the factored amount is received, this transaction will close off completely the Factoring Account to a balance of \$0, unless there are other factored debts still outstanding in the same account.

The GST tax code is also included within this transaction as Company XYZ would charge GST for their services.