

How Does Invoice Factoring Work?

In a typical factoring transaction, a business sells its invoices when they are generated for a cash advance on each invoice. The company selling its invoice will typically receive two payments from the factoring company. The initial payment comes when the company first enters into the factoring transaction and is called the advance, which is typically 75-80% of the value of the invoice. The second payment, referred to as the rebate, is paid when the company's client pays the invoice. This payment will be the remaining 20-25% of the invoice value, less the remaining fees earned by the factoring company.

In order to be able to factor your invoices, a business will need to get approved by a factoring company of its choice and the process typically follows the following procedure.

Step 1 – Establish relationship with your factoring company and get approved

Establish a relationship with your factoring company and get approved to factor your invoices. The factoring company will require certain information on you and your business to complete its due diligence and to determine if you are approved. Once approved, you will be given a factoring limit for your business.

Step 2 – Financing your first invoice(s)

Financing your first invoice or group of invoices requires you to submit your invoices to your factoring company. This is usually completed with the use of a schedule of accounts that the factoring company will provide you and will list all of the invoices you want to factor. After the schedule of accounts is complete, the factoring company will verify the invoices submitted and ensure that your clients have received and executed a notice of assignment directing payment for the invoices directly to the factoring company. Once verification of the invoices is complete and the your clients have executed the notice of assignment, you receive your advance which is typically 75-80% of the invoice value.

Step 3 – Receive your rebate payment

When your client pays the factoring company for the invoice that was factored, you will receive the rebate owing which will be the remaining 20-25% of the invoice value less the remaining factoring company fees.



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Step 4 – Finance future invoices / accounts receivable

Financing future invoices is relatively straight forward and follows the same process as outlined above. The factoring company will process the invoices you submit and you will receive your advance. When your client pays the factoring company for the invoice, you will receive the rebate. Companies typically find that removing the uncertainty of when invoice payments are made by their clients is very valuable for their business and their cash flow requirements.

Invoice factoring provides business owners an opportunity to free up the cash that is tied up in their accounts receivable so they can focus on running and growing their business without the uncertainty and stress of not knowing when they will receive payment on their slow paying receivables.

We invite you to review our other articles on the factoring process, explore our website and to give us a call with any questions you may have about our invoice and accounts receivable factoring services.

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