FACTORING

DEFINITION
Meaning
Functions of Factoring

- Definition

- According to V.A. Avadhani, "Factoring is a service of financial nature involving the conversion of credit bills into cash.

- Meaning
- Factor is an agent as a banking or insurance company engaged in financing the operations of certain companies or in financing wholesale or retail trade sales, through the purchase of account receivables. As the dictionary rightly points out, factoring is nothing but financing through purchase of account receivables.

- Functions

- Purchase and Collection of Debts

- Under factoring, the factor purchases the entire trade debts and thus, he becomes a holder for value and not an agent. Once the debts are purchased by the factor, collection of those debts becomes his duty automatically.

- Sales ledger management

- Factor's responsibility to take care of all the functions relating to the maintenance of sales ledger. The factor has to credit the customer's account whenever payment is received, send monthly statements to the customers and to maintain liaison with the client and the customer to resolve all possible disputes.

- Credit investigations and undertaking of credit risk

- The factor has to monitor the financial position of the customer carefully, since, he assumes the risk of default in payment by customers due to their financial inability to pay.

- Before accepting the risk, he must be fully aware of the financial viability of the customer, his past financial performance record, his future ability,his honesty and integrity in the business world etc. For tis purpose, the factor also undertakes credit investigation work.

- Provision of Finance

- In the event of non-payment, the factor has to bear the loss of payment.

- Rendering consultancy services
- Apart from the above, the factor also provides management services to the client. He informs the client about the additional business opportunities available, the changing business and financial profiles of the customers, the likelihood of coming recession etc.