

Sources of Finance

Why are they important?

- Help the company in growing
- Prevent a company from going down into liquidation from overtrading
- To help keep the liquidity of a business running smoothly
- When the Debtors are not paying up in time a source of finance maybe needed
- Allows the purchase of new assets

Debt Factoring - Long term

This is where a business will sell its invoices to a third party if they are struggling to receive the payment in time. The third party usually buys the invoice for around 75%-80% of what is due to be paid. As they are professionals in credit control they are able to receive the payment much faster than what the business selling the invoice would. Once the full amount has been paid to the factor they will then pay the rest to the business less a 2%-3% charge for their service.

You effectively pass your credit controls to another company in return for cash in advance less a 2%-3% charge.

Months	Sales revenue	Cash paid in advance 80%	Paid back after invoice paid less 3%	
1	100	80	17	97
2	100	80	17	97
3	100	80	17	97
4	100	80	17	97
Total amount received		320	68	388

Advantages and Disadvantages of Debt Factoring

- + Passes your credit control to professionals
- + Receive cash in advance which can help in working capital if the company is struggling
- + If the factor is well known it can force the debtors to pay quicker
- You will always be paying interest
- Almost impossible to get out of it
- Old credit control team will lose their job meaning its incredible hard to find a new one
- Customers will know you are in trouble and may not wish to continue doing business with you