Bankruptcy in Financial Crisis – How does Insolvency Help

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June 19, 2010 - *PRLog* -- Most business to business transactions require a net-30 invoicing cycle. Accounts receivable can choke companies especially when the thirty days get extended to 45-60 days. It leave the company short of cash to be able to meet overhead costs, payroll and accounts receivable.

A business can use the accounts receivable to finance ongoing business expenses through a process called factoring. Factoring receivables is a way of leveraging the cash without adversely effecting the balance sheet. It is the selling of assets rather than borrowing money. As such, it does not effect the balance sheet as a debt.

One of the features of accounts receivable financing is that a business does not have to have perfect credit. It is possible to finance accounts receivable for companies that have or will be filing for reorganization under a chapter 11 bankruptcy filing if they are doing business with credit worthy clients. It is a great way of working through the bankruptcy. A chapter 11 trustee is most interested in whether a company can meet the terms of the reorganization plan. Factoring invoices makes cash flow more predictable thus making it more probable that the terms will be met to the satisfaction of the trustee. A confirmation is more probable if the business is able to prove the viability of cash flow. Factoring is the sale of an asset rather than debt.

A business can consider factoring to be a growing credit line inasmuch as the amount of funds advanced to the company increases as sales increase. It can be considered a debt free credit line that increases as the company grows. It is really the best of two worlds when the only other alternative is to liquidate the business. Solving cash flow problems for the business help improve the morale of the employees and management.

The funds from this type of financing are not restricted. The cash can be used for payroll, accounts payable, purchasing materials, overhead, or equipment. The cash is readily available because a large percentage of each invoice is advanced to the business immediately after goods and services have been delivered. Once the client pays the invoice, the reserve amount of the invoice minus a discount is paid to the business. A factor advances 70-90% of the amount of the invoice followed by another installment of the reserve minus the discount charged.

Factors will finance accounts receivable for a business that generates an invoice to a credit worthy business or the government. Invoices submitted to credit worthy businesses or to the government allow the factor to pay up to 90% of the gross amount of the invoice. The percentage amount of the advance is determined by the credit worthiness and type of business that is being invoiced.

Some of the types of businesses that benefit from factoring are temporary employment agencies, printing, manufacturing, business machines, janitorial, job training, garment distributors, temporary nursing, temporary accounting, trucking/transportation, furniture, consulting, environmental, telecommunications, retail suppliers, government vendors and construction.

It is particularly beneficial for companies that have periodic payments to be able to meet financial obligations even when invoiced customers are slow paying. Business relationships between large companies and small companies often involve an extension of the net-30-day billing cycle. Factoring provides predictable cash flow because and advance is made immediately after the invoice has been created.

Another advantage of factoring invoices is management of the accounts receivable. Factors provide regular reports in an effort to make sure the invoices get paid. Therefore companies taking advantage of factoring can direct efforts toward more sales rather than collection of past due accounts.

Conventional financing is possible once a company improves credit through better management of the accounts receivable. Ultimately, factoring can be a way of improving the credit rating of a company having a struggle.

If you are in need of fast cash then many times getting a cash advance loan can be the easiest option. It would be wise however to not go directly to a particular lender but rather visit a multiple lender site first. These sites make the lenders compete for your cash advance loan and have consistently proven to offer the best rates. Check out the following link to find the best rates on online cash advance loans:

http://internetpaydaycashadvance.com

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