One more issue an accountant will want to consider is different factors' specialties. Some factors concentrate in certain areas, such as construction, while others are diversified, with solid experience in a variety of industries.

Once the accountant has chosen a factor with whom he is confident he can establish a solid working relationship, his role becomes that of a "link" between the factor and his client. His next step is providing the factor with the client's financials, as well as a copy of the accounts receivable aging schedule. His further involvement includes working with his client to determine his needs in terms of his cash flow requirement.

Ins and outs of factoring

Because factoring involves purchasing the client's accounts receivable, rather than lending money, the client may not be aware of certain benefits it offers. There are no monthly payments, money can often be obtained in 24 hours or less, and the client has complete control of his cash flow in terms of both amount and frequency. He can choose to factor only the amount that he needs at any given time. There is no liability created in terms of the company's balance sheet.

A CPA's client may also not be aware that different types of arrangements can be made. For example, a deal can be made on either a recourse or a non-recourse basis, with the first option requiring a personal guarantee by the client.

Common misconceptions

While factoring has been an integral part of business since the days of the Mayflower, CPAs sometimes harbor misconceptions about this increasingly common practice. For example, some CPAs are under the impression that it is necessary for their clients to get into a one- or two-year agreement with a factor, generally with an "exclusive" agreement. Yet the reality is that many factors are willing to work with clients on a "spot" basis, for a period of as little as three to six months.

One more misconception about factors is that using their services is less desirable than obtaining financing from more traditional lenders, such as banks. Even when a company's loan application has been rejected at a bank, that company still might resent having to pay the extra few percent more to a factor in order to secure the funds it needs. In that situation, an accountant is in the ideal position to point out that while working with a factor may cost a bit more, the difference between having the funds necessary to go after a business opportunity — and having to let that opportunity pass — can be great.

Craig Sheinker
QUANTUM CORPORATE FUNDING

Planning ahead

While one of the most critical advantages of factoring is that cash can in most cases be made available in an extremely short period of time — less than 24 hours — accountants may not realize that there's no need to wait for an "emergency" to approach a factor. Any accountant's client can benefit from having a secondary or alternative financial relationship with a lender — that is, a factor — lined up and ready to go. After all, even if a client isn't currently in need of financing, it's a reasonable bet that at some point every company is going to want to expand, develop new business or take advantage of an unexpected business opportunity. Of course, the same holds true for difficult times, like a cash crunch that no one saw coming.

As for costs, no one knows

The bottom line is that banks are simply not willing to invest in any business that they don't view as a sure thing.

by Craig Sheinker

Small and midsized businesses play a vital role in today's economy, actually making up the majority of the country's business environment. Yet while most banks pay lip service to supporting entrepreneurship, they still consider lending money to smaller companies an unwelcome risk.

The same holds true for start-up enterprises and relatively new businesses. These days, banks require two to four years of financial statements before they'll even process a loan application. The bottom line is that banks are simply not willing to invest in any business that they don't view as a sure thing – just like in that old saying about banks only being willing to lend money to people who don't really need it.

No one is more aware of the importance of companies of all sizes having ready financing available than accountants. And given the current environment, with banks viewing smaller and newer companies as undesirable credit risks, it is important for accountants to be aware of every financing option available to the companies they work for. That's where factoring fits in.

How A CPA works with a factor

The accountant who has never been involved with factoring before may have questions about how to choose a factor – and, once that choice has been made, how the process of establishing a relationship with a factor gets underway.

Choosing a factor is a lot like hiring a new employee. Recommendations from a trusted colleague are helpful, as is a personal meeting. An accountant who is looking out for the needs of his client will want to identify a factor that is professional and will handle that client in a responsible manner.

And just as in hiring an employee, an accountant will probably want to arrange face-to-face interviews with a number of candidates in order to determine which will provide the best working relationship. The establishment of a strong relationship between a CPA and a factor will result in advantages on both side. And since CPAs will be referring their clients to that factor, the CPA's choice of an effective factor will reflect well on him.

Craig Sheinker is the president of Quantum Corporate Funding Ltd. of New York, a company that handles about $80 million annually in factoring transactions. He is a member of the board of directors of the Commercial Finance Association.

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tax lien. But they can also recommend factoring as the best way to take advantage of a valuable opportunity.

For example, what happens when a company suddenly receives a large order from Wal-Mart? That's certainly good news — unless, of course, that company happens to be tapped out at the bank. Then there's the issue of timing, which is critical in a situation like this one. By suggesting factoring as a means of garnering the resources required to fill that big order, the company's accountant may well have come up with the perfect answer to what otherwise would have presented a real predicament.

There are other such "good news" scenarios, as well — situations that offer a chance for unanticipated growth. A company may recognize an opportunity to make a foray into a brand new market. All of a sudden, the timing is right and the competition is two steps behind. The potential for a dramatic increase in sales is suddenly there for the taking. All the company needs is the resources to grab it — and with the accountant's advice about factoring, those resources are suddenly there.

Ironically, when a company applies for a loan with a traditional lender and is refused, the accountant is often conveniently assigned the blame. After all, he was the one assigned to oversee the loan application process. Of course, that's not fair. But the best way for him to handle such a situation is to go in with an alternative. Recommending factoring enables him to provide a ready solution to his company's problem.

Factoring is an important option that provides a company with unique benefits. Accountants should not overlook the possibility of taking advantage of factoring in their client relationships — not when it offers the opportunity to make a truly substantial difference when it comes to the bottom line.