SME Invoice Finance Jargon Buster

The invoice finance industry is a jargon jungle. But don't let that put you off. Let SME Invoice Finance be your guide.

If you're unsure of some of the terms that appear on our web site or when discussing your requirements, this section should help you find your way around easily.

Advance rate The agreed percentage of eligible debts which will be made available for you to draw down.

Aged Debt Report A summary report of all outstanding balances for each debtor over a period. This report is generated from the invoice date.

Approved Debt A debt which has been accepted by the invoice finance company as being eligible for prepayment.

Assets Anything owned by your company that has a monetary value, including debtors.

Assignment of Debt The legal mechanism by which we obtain the right to collect cash directly from your debtors to repay amounts that we have advanced to you.

Associated Businesses Other businesses that you own or over which you can exert control.

Availability (of Funds) The amount of cash which is available for you to draw each day should you so require. This is usually calculated by multiplying the total eligible invoices by the advance rate, minus the amount already drawn plus charges up to that point.

BACS Bankers Automated Clearing System; funds may be transferred from our account to your own bank account via this system in 3 working days.

CHAPS Clearing House Automated Payment System (telegraphic transfer); funds can be processed via this payment system on the same day.

Cash Flow The measurement of cash that your company gains or loses during an accounting period; perhaps one of your most important management tools.

CID / Confidential Invoice Discounting An invoice finance facility where funds are advanced to a business by a lender (discounter) secured against the value of the business sales ledger and where the funding relationship is confidential (ie not disclosed to your customers) with complete responsibility and control of the sales ledger management, credit control and collection functions remaining within the business.

Contra-trading A trading relationship in which you might buy from and sell to the same customer. This may result in some form of offset to establish the balance of what is owed and by whom.

Credit Insurance This provides a level of bad debt protection against non payment by your customers under certain specific circumstances. Policies may be purchased on a "stand alone" basis or are sometimes offered as an integral part of a "non recourse" facility.

Credit Limit Your own limits are the amount of credit that you are prepared to extend to any of your customers. An Invoice Finance Company's limits are the levels of credit applied to each of your customers up to which they are prepared to advance money (funding limits). These limits may not necessarily be the same.

Current Account The account which shows the financial obligation between the invoice finance company and you; this is calculated by totalling all prepayments made and all fees charged to you less all collections received from your debtors.

Current Assets Cash, debtors, stock **-** anything that you would expect to convert into cash within twelve months of your balance sheet date.

Debtor Concentration The percentage value of your ledger held by individual debtors; for example, if you had a total ledger of 100 and one debtor accounted for 50, your ledger might be described as having 50% concentration.

Dilution Anything which can reduce the value of invoices that you have already raised (such as credit notes).

Disapproved Debts (Disapprovals) Debts against which a factor or discounter will not provide funding. There are various reasons why debts might be disapproved, including debts which are typically more than 90 days old (aged), debts which are disputed by the debtor, debts which are known to be bad or irrecoverable, debts to associated businesses or in respect of contra trading customers.

Disbursements Monies paid out from your account in order to discharge a valid expense.

Disclosed Discounting An invoice finance arrangement similar to CID which is not confidential ie your customers may be aware that their debt has been assigned to a discounter.

Discount Charge The rate of interest that is payable on funds outstanding (borrowed); this is usually expressed a percentage over bank base lending rate and calculated on a daily basis.

Export Debts Debts arising from the sale of goods or services to an overseas buyer; these may be invoiced in £ sterling or another currency.

Fixed Assets Assets held for use by the business rather than for sale or conversion into cash, e.g. fixtures and fittings, equipment, buildings.

Full Service Factoring A method of providing accelerated cash flow to a business using the sales ledger (receivables) as security to borrow money and where the lender also provides a full sales ledger management, credit control and collections service.

Facility Limit The maximum balance to which the current account can be drawn at any given time. This limit is often flexible by negotiation with the invoice finance company.

ineligibles The value of debts which are disapproved (see above).

IP / Initial Pre-Payment The maximum percentage value of your invoices that will be available for you to draw in advance.

Non-Recourse Factoring This is a factoring facility where, under certain circumstances, the factor provides credit insurance as part of their overall funding package. This provides a level of bad debt protection against non payment by your customers.

Prepayment The maximum percentage value of your invoices that will be available for you to draw in advance.

Reassignment A debt previously assigned to an invoice finance company which has been returned to you.

Reconciliation A process of matching the balance of your sales ledger to the balance recorded by the invoice finance company at the same point in time; this is typically undertaken at the end of each month.

Recourse Factoring Under a standard recourse factoring arrangement, the factor will seek to recover from the client advances made to the client in respect of any debt that is not collected within a given time period (usually 90 days following the month of invoice).

Refactoring Fee An additional charge made to cover the cost of collecting debts which have aged beyond the agreed credit period; this charge is usually expressed as a percentage of the amount outstanding.

Service Fee The charge levied by an invoice finance company for the administration of your account. This is typically expressed as a percentage of sales and is likely to be higher for a full factoring service than for invoice discounting in view of the additional workload involved.

Take-On Debts The value of the ledger at the point when the facility commences. These debts will be "taken on" when the facility starts and will be used to create the initial availability.

Working Capital Current assets less current liabilities, representing the investment required to finance stock, debtors, and work in progress.