

**FACTORING : A DYNAMIC FINANCIAL TOOL IN WORKING CAPITAL  
MANAGEMENT**

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## TABLE OF CONTENTS

		page
ACKNOWLEDGEMENTS		i
ABSTRACT		ii
Chapter		
1	INTRODUCTION	
	Introduction	1
	Objectives of the study	3
	Methodology	3
	Scope and limitation of the study	3
2	LITERATURE REVIEW	5
3	DATA COLLECTION	11
4	ANALYSIS OF FINDINGS	
	Factoring activities in Malaysia	13
	What is factoring	16
	Who can factor and when will	
	factoring be necessary	25
	Benefits of factoring	27
	Problems and difficulties faced by	
	factoring industry	34
	Comparison with bank overdraft	39
5	RECOMMENDATIONS AND CONCLUSION	46
BIBLIOGRAPHY		
APPENDICES		
APPENDIX A	Members Of The Malaysian Factors Associa- tion	
APPENDIX B	The Choice Of Factoring Service	
APPENDIX C	The Route To Factoring	
APPENDIX D	Example Of A Working Capital Cycle	

- APPENDIX E      Simplified Balance Sheet As At 31st  
December, 1989
- APPENDIX F      Impact Of Factoring On Critical Areas Of  
Company's Performance
- APPENDIX G      An Example Of The Savings From Factoring
- APPENDIX H      Result Of The Survey On 30 Local Compa-  
nies

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**ABSTRACT**

Tight liquidity is a common problem faced by most firms. Thus, short-term financing will have to be sought to fund working capital. Amongst the short-term financing facilities in Malaysia, factoring is probably the least understood and most ignored. Factoring is essentially a combination of services for it includes administering credit on behalf of the client, maintaining the book-keeping of client's credit sales, collection of remittances and advancing cash on receivables which are yet to mature. In this context, factoring is actually ~~the~~ transferring of responsibility for the control ~~of~~ investment in trade debtors for a fee. It ~~is~~ ~~not~~ for mere financing but as an inducement in transferring risk of bad debts.

This project paper seeks to clarify and explain factoring as an innovative tool in the financing of working capital both from the theoretical and practical point of view. The mechanics of it is discussed based on typical example from a local factor. Merits and demerits are discussed so as to give a better insight of factoring. The Malaysian experience is added to highlight the present state of the industry in the country.