**EXERCISE N. X FINANCIAL INSTRUMENTS – DERECOGNITION** **(1 mark)**

A company is experiencing cash flow problems and decides to factor its accounts receivable with a factoring company to accelerate it cash flows. The factor offers the company two alternatives:

1. The factor will assume all of the risks and rewards related to collection of the accounts receivable as long as these are a result of bona fide sales; or
2. The factor will revert to the company in case of default by the customer

How should the company account for the sale of the receivables in each of the two alternatives?

1. Dr Cash

Cr Accounts receivable

1. Dr Cash

Cr Advance/loan from factor