

Sale of Receivables with Recourse

Sales of receivables with recourse is (potentially) a form of off-balance sheet financing. A firm sells its accounts receivables to another firm in exchange for cash. If the selling firm still has to assume the benefits and risks of these receivables (even after the sale), this transaction is more like a collateralized loan than a true sale. And the selling firm has to recognize it as such.

FASB has ruled when these transactions should be recognized as sales and when they should be recognized as liabilities. However, there is some leeway in these rules; and aggressive or unscrupulous firms sometimes interpret these rules in ways they were not intended.

As with many of the off-balance-sheet types of financing, all firms, on occasion, usually engage in at least a few of these techniques. But when a firm engages in a disproportionate number of them or engages in a few of them to a disproportionate degree, it may be an indication that that firm's true performance or financial position is not what it seems.