20 True or False

Decide, then check the answer and reason below each statement.

Question 1

Factoring involves a business selling its trade receivables to a financier known as a factor.

TRUE

Factoring is defined as the sale of receivables to a factor in exchange for immediate cash.

Question 2

TReDS stands for Trade Receivables Discounting System and is an RBI-facilitated electronic platform.

TRUE

TReDS is RBI's institutional mechanism for discounting MSME invoices through multiple financiers.

Question 3

Financing without recourse means the financier bears the risk of the buyer failing to pay.

TRUE

Under without-recourse financing, the financier generally cannot recover funds from the supplier on buyer default.

Question 4

The Factoring Regulation (Amendment) Act, 2021 expanded the number of entities allowed to undertake factoring business.

TRUE

The amendment liberalised the 2011 Act by widening eligibility for NBFCs to do factoring.

Question 5

TReDS financing is generally without collateral, unlike most traditional bank loan facilities.

TRUE

TReDS financing usually needs no hypothecation or mortgage of assets, unlike a typical bank loan.

Question 6

Trade receivables are recorded as current assets because they are normally collected within a year.

TRUE

Dues from credit sales sit on the balance sheet as current assets since they are usually realised within a year.

Question 7

Factoring is the sale of an asset and does not add a new liability to the seller's balance sheet.

TRUE

Unlike a loan, factoring monetises an existing receivable instead of creating fresh debt.

Question 8

Under the Factoring Regulation Act, 2011, only RBI-authorised NBFCs could originally undertake factoring business.

TRUE

The earlier law mainly permitted NBFCs whose principal business and income came from factoring.

Question 9

On TReDS, multiple financiers can compete to discount the same MSME invoice, which can improve pricing for suppliers.

TRUE

TReDS is designed as a multi-financier platform so competing bids can benefit the supplier.

Question 10

The five-step factoring process ends with settlement, where the factor adjusts its fee or discount.

TRUE

After the buyer pays, the factor settles the deal by adjusting its fee or discount.

Question 11

Factoring is legally treated as a loan that adds a new liability to the seller's balance sheet.

FALSE

Factoring is a sale of an existing asset, not a loan, so it does not create a new liability.

Question 12

TReDS financing typically requires the supplier to pledge collateral such as property or machinery.

FALSE

TReDS financing usually needs no collateral, unlike many bank credit facilities.

Question 13

The Factoring Regulation (Amendment) Act, 2021 narrowed the number of entities eligible to do factoring business.

FALSE

The 2021 amendment widened, not narrowed, the range of entities permitted to carry on factoring.

Question 14

Under financing without recourse on TReDS, the supplier remains liable to repay the financier if the buyer defaults.

FALSE

Without recourse means the financier, not the supplier, bears the buyer's default risk.

Question 15

The base law governing factoring in India, the Factoring Regulation Act, was enacted in 2021.

FALSE

The original Factoring Regulation Act was enacted in 2011; 2021 only brought a liberalising amendment.

Question 16

Trade receivables are classified as long-term fixed assets rather than current assets.

FALSE

Trade receivables are current assets because they are normally collected within a year.

Question 17

TReDS discounting is a slow, paper-heavy process compared with a traditional bank loan.

FALSE

TReDS is described as fast and largely paperless, unlike the slower, document-heavy bank loan process.

Question 18

Under the 2021 amendment, only banks were permitted to register on TReDS and NBFCs were barred from factoring.

FALSE

The amendment did the opposite, opening the door for many more NBFCs to enter the factoring business.

Question 19

In the factoring process, the buyer pays the supplier directly and the factor has no role in collection.

FALSE

In factoring, the buyer pays the factor on the due date since the factor has taken over collection.

Question 20

TReDS was created mainly to help large corporates raise long-term capital rather than to finance MSME receivables.

FALSE

TReDS was set up specifically to finance MSME trade receivables and speed up invoice discounting.