

MULTIPLE CHOICE QUESTIONS

1. The credit terms may be expressed as “3/15 net 60”. This means that a 3% discount will be granted if the customer pays within 15 days, if he does not avail the offer, he must make payment within 60 days.
(a) I agree with the statement
(b) I do not agree with the statement
(c) I cannot say
(d) None of the above
2. The term ‘net 50’ implies that the customer will make payment:
(a) Exactly on 50th day
(b) Before 50th day
(c) Not later than 50th day
(d) None of the above
3. Factoring is a method of financing whereby a firm sells its trade debts at a discount to a financial institution. The statement is:
(a) Correct
(b) Incorrect
(c) Partially correct
(d) I cannot say
4. A factoring arrangement can be both with recourse as well as without recourse:
(a) True
(b) False
(c) Partially correct
(d) Cannot say
5. When a firm advises its customers to mail their payments to special Post Office collection centres, the system is known as:
(a) Concentration banking
(b) Lock Box system
(c) Playing the float
(d) None of the above
6. Receivables arise -
 1. If the goods are sold on credit.
 2. If the goods are sold on cash
 3. If the services are rendered on credit
 4. If the services are rendered on cash.

Select correct answer from the options given below:

- | | |
|------------|----------------|
| (a) 1 only | (b) 1 & 2 |
| (c) 1 & 3 | (d) All 1 to 4 |

7. The payment terms 2/10, Net 30 tell us that:
- (a) 2% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within next 10 days of invoice date.
 - (b) 10% discount will be awarded if the payment is made within 20 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
 - (c) 2% discount will be awarded if the payment is made within 30 days of invoice date; otherwise, the full amount is payable within next 10 days of invoice date.
 - (d) 2% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
8. If you are proposing to introduce relaxed credit policy, you will adopt it if-
- (a) There is increase in profit
 - (b) There is reduction in loss
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
9. Ageing schedule incorporates the relationship between
- (a) Creditors and Days Outstanding,
 - (b) Debtors and Days Outstanding
 - (c) Average Age of Directors
 - (d) Average Age of All Employees
10. Which is not a service of a factor?
- (a) Administrating Sales Ledger
 - (b) Advancing against Credit Sales
 - (c) Assuming bad debt losses
 - (d) None of the above
11. Credit Policy of a firm should involve a trade-off between increased
- (a) Sales and Increased Profit
 - (b) Profit and Increased Costs of Receivables
 - (c) Sales and Cost of goods sold
 - (d) None of the above.
12. Out of the following, what is not true in respect of factoring?
- (a) Continuous Arrangement between Factor and Seller
 - (b) Sale of Receivables to the factor
 - (c) Factor provides cost free finance to seller
 - (d) None of the above
13. 80% of sales of ₹10,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm?
- (a) 45 days and ₹1,00,000
 - (b) 360 days and ₹1,00,000
 - (c) 45 days and ₹8,00,000
 - (d) 360 days and ₹1,25,000
14. In _____ type of factoring the bank/factor takes all the risk and bear all the loss in case of debts becoming bad debts.
- (a) Non-Recourse Factoring
 - (b) Invoice Discounting
 - (c) Maturity Factoring
 - (d) Recourse Factoring

15. _____ is a means of financing used by exporters that enables them to receive cash immediately by selling their medium-term receivables (the amount an importer owes the exporter) at a discount, and eliminate risk by making the sale without recourse, meaning the exporter has no liability regarding possible default by the importer on paying the receivables.
- (a) Forfeiting (b) Factoring
(c) Securitization (d) Reconstruction Factoring
16. A forfeiter purchase of the receivables, the sum of which is typically guaranteed by the -
- (a) exporters bank (b) importers bank
(c) buyers bank (d) financiers bank
17. Forfeiting eliminates -
- (a) Risk of the exporter not receiving payment
(b) Credit risk and transfer risk
(c) Risks posed by foreign exchange rate or interest rate changes.
(d) All of the above
18. Forfeiting is -
- (a) either with recourse or without recourse (b) always without recourse
(c) pure financing agreement (d) (b) and (c)
19. Analysis of debtors collection history of SK Ltd. shows the following facts.
42% debtors pays the amount due within 4 days of sales; 18% debtors pays within 20 days and 40% debtors pays within 40 days of sales. What is the average collection period of SK Ltd.
- (a) 23 days (b) 28 days
(c) 21 days (d) 18 days

Answer Key

1. (a)	2. (c)	3. (a)	4. (a)	5. (b)	6. (c)	7. (d)	8. (c)	9. (b)	10. (d)
11. (b)	12. (c)	13. (a)	14. (a)	15. (a)	16. (b)	17. (d)	18. (d)	19. (c)	