

FINANCE-RELATED INTERVIEW QUESTIONS AND ANSWERS

The questions below cover the basic finance concepts that candidates must be aware of:

1. What do you like about 'Finance'?

Finance interests me for the following reasons:

- a. It gives an insight into the workings of all the aspects of an enterprise
- b. I am comfortable working with numbers and am good at Excel.
- c. It will enable me to be a part of the major decision-making process of the enterprise such as distribution of profits, financing of capital requirements, effective working capital management, evaluation of performance, and identifying areas of concern and improvements, etc.

2. What does the inventory turnover ratio shows?

The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period.

3. What is the return on equity?

Return on equity (ROE) is a ratio that provides investors with insight into how efficiently a company is managing the equity that shareholders have contributed to the company. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Equity = $\frac{\text{Net Income} - \text{Pref. dividend (if, any)}}{\text{Shareholder's Equity}}$

4. What is the net worth of a company?

Net worth is the amount by which assets exceed liabilities. Net worth is a concept applicable to individuals and businesses as a key measure of how much an entity is worth. A consistent increase in net worth indicates good financial health.

5. What is the operating cycle/Cash conversion cycle?

The operating cycle is also known as the cash conversion cycle. In the context of a manufacturer, the operating cycle has been described as the amount of time that it takes for a

manufacturer's cash to be converted into products plus the time it takes for those products to be sold and turned back into cash.

6. What is the difference between EBIT and EBITDA? Can EBIT be greater than EBITDA?

EBIT represents the approximate amount of operating income generated by a business, while EBITDA roughly represents the cash flow generated by the operations of a business.

7. Distinguish between Budgeting and Forecasting.

Budgeting	Forecasting
Budgeting frames an outline that determines the direction in which the business should go.	Forecasting predicts how the business will perform, determining whether a business will achieve its budget targets or not.
Budgeting doesn't take place very often.	Forecasting is more regular than budgeting. It is often updated once a month or every quarter.
Budgets take into account the vision of the business.	
Budgets can be used to take steps towards changing the strategy so that the business can achieve the budget goals that have been set.	Accurate forecasting reduces uncertainty and helps to take immediate actions and make critical changes.
Budgeting doesn't take into account the actual market conditions, which is why not every business needs to have a budget.	Forecasting takes actual market conditions into account. Every business should forecast because it is closer to reality, and it can serve as a roadmap for your business.

SENSEX:

- Sensex, also called the BSE 30, is a stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).
- 30 companies are selected on the basis of the free-float market capitalization.
- These are different companies from varied sectors representing a sample of large, liquid, and representative companies.
- The base year of Sensex is 1978-79 and the base value is 100.
- It is an indicator of market movement.
- If the Sensex goes up, it means that most of the stocks in India went up during the given period. If the Sensex goes down, this tells you that the stock price of most of the major stocks on the BSE has gone down.

NIFTY:

- The NIFTY 50 index is the National Stock Exchange of India's benchmark stock market index for the Indian equity market. Nifty is owned and managed by India Index Services and Products (IISL).
- The base year is taken as 1995 and the base value is set to 1000. □ Nifty is calculated on 50 stocks actively traded in the NSE □ 50 top stocks are selected from 24 sectors.

9. What are EPS and diluted EPS?

EPS is the portion of a company's profit that is allocated to every individual share of the stock. It is a term that is of much importance to investors and people who trade in the stock market. The higher the earnings per share of a company, the better is its profitability. $EPS = \frac{PAT}{TOTAL\ NO.\ OF\ SHARES}$

Diluted EPS takes into account what would happen if dilutive securities were exercised.

Dilutive securities are securities that are not common stock but can be converted to common stock if the holder exercises that option. If converted, dilutive securities effectively increase the weighted number of shares outstanding, and this, in turn, decreases EPS, because the calculation for EPS uses a weighted number of shares in the denominator.

10. What is derivative

A derivative is a security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets.

Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates, and market indexes. Derivatives can either be traded over-the-counter (OTC) or on an exchange. OTC derivatives constitute the greater proportion of derivatives in existence and are unregulated, whereas

derivatives traded on exchanges are standardized. OTC derivatives generally have a greater risk for the counterparty than do standardized derivatives.

11. What is options trading?

Options are a type of derivative security. They are a derivative because the price of an option is intrinsically linked to the price of something else. Specifically, options are contracts that grant the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The right to buy is called a call option and the right to sell is a put option.

12. Difference between call and put options

- Call options - provide the holder the right (but not the obligation) to purchase an underlying asset at a specified price (the strike price), for a certain period of time. If the stock fails to meet the strike price before the expiration date, the option expires and becomes worthless. Investors buy calls when they think the share price of the underlying security will rise or sell a call if they think it will fall. Selling an option is also referred to as 'writing' an option.
- Put options - give the holder the right to sell an underlying asset at a specified price (the strike price). The seller (or writer) of the put option is obligated to buy the stock at the strike price. Put options can be exercised at any time before the option expires. Investors buy puts if they think the share price of the underlying.

13. Explain Future and Forward Contract?

- A forward contract is a customized contractual agreement where two private parties agree to trade a particular asset with each other at an agreed specific price and time in the future. Forward contracts are traded privately over the counter, and not on an exchange.
 - A futures contract — often referred to as futures — is a standardized version of a forward contract that is publicly traded on a futures exchange. Like a forward contract, a futures contract includes an agreed-upon price and time in the future to buy or sell an asset — usually stocks, bonds, or commodities, like gold.
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14. What are Swaps?

A swap is an agreement between two parties to exchange sequences of cash flows for a set period of time. Usually, at the time the contract is initiated, at least one of these series of cash flows is determined by a random or uncertain variable, such as an interest rate, foreign exchange rate, equity price, or commodity price. Conceptually, one may view a swap as either a portfolio of forwarding contracts or as a long position in one bond coupled with a short

position in another bond. This article will discuss the two most common and most basic types of swaps: the plain vanilla interest rate and currency swaps.

15. Explain valuation and techniques

Valuation is the process of determining the current worth of an asset or a company; there are many techniques used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings, and the market value of assets.

Techniques:

- a. Discounted cash flow (DCF) analysis.
 - b. Comparable transactions method.
 - c. Market valuation.
 - d. Book value
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16. What is financial risk management?

Financial risk management is the practice of economic value in a firm by using financial instruments to manage exposure to risk. The risks can be operational risk, credit risk, market risk, foreign exchange risk, shape risk, volatility risk, liquidity risk, inflation risk, business risk, legal risk, reputational risk, sector risk, etc.

Similar to general risk management, financial risk management requires identifying its sources, measuring them, and strategy to address them.

17. What are SLR, CRR, REPO, and Reverse Repo Rate?

- Repo rate is also known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term. When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate.
- Reverse Repo Rate is the short-term borrowing rate at which RBI borrows money from banks. The Reserve bank uses this tool when it feels there is too much money floating in the banking system. An increase in the reverse repo rate means that the banks will get a higher rate of interest from RBI. As a result, banks prefer to lend their money to RBI which is always safe instead of lending it to others (people, companies, etc.) which is always risky.
- Cash Reserve Ratio - Banks in India are required to hold a certain proportion of their deposits in the form of cash. However, banks don't hold these as cash with themselves, they

deposit such cash (aka currency chests) with the Reserve Bank of India, which is considered equivalent to holding cash with themselves. This minimum ratio (that is the part of the total deposits to be held as cash) is stipulated by the RBI and is known as the CRR or Cash Reserve Ratio.

- Statutory Liquidity Ratio - Every bank is required to maintain at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold, and approved securities. The ratio of liquid assets to demand and time liabilities is known as the Statutory Liquidity Ratio (SLR).

18. Difference between broad money and narrow money

- Narrow money is a category of money supply that includes all physical money like coins and currency along with demand deposits and other liquid assets held by the central bank. In the United States, narrow money is classified as M1 (M0 + demand accounts).
- Broad money is the most inclusive method of calculating a given country's money supply. The money supply is the totality of assets that households and businesses can use to make payments or to hold as short-term investments, such as currency, funds in bank accounts and anything of value resembling money.

19. Explain dividend models

- Dividend Growth Model: Also known as the Gordon growth model, it is used to determine the intrinsic value of a stock based on a future series of dividends that grow at a constant rate. Given a dividend per share that is payable in one year, and the assumption the dividend grows at a constant rate in perpetuity, the model solves for the present value of the infinite series of future dividends.
- Dividend Discount Model: The Dividend Discount Model (DDM) is a procedure for valuing the price of a stock by using the predicted dividends and discounting them back to the present value. If the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued.

20. What is a sin tax?

A sin tax is an excise tax specifically levied on certain goods deemed harmful to society, for example, alcohol and tobacco, candies, drugs, soft drinks, fast foods, coffee, sugar, gambling, and pornography. Two claimed purposes are usually used to argue for such taxes.