

Finance Related Interview Question and Answers

1. What is STT?

STT is levied on every purchase or sale of securities that are listed on the Indian stock exchanges. This would include shares, derivatives or equity-oriented mutual funds units.

2. What is deferred tax liability and assets?

Deferred tax asset is an accounting term that refers to a situation where a business has overpaid taxes or taxes paid in advance on its balance sheet. These taxes are eventually returned to the business in the form of tax relief, and the over-payment is, therefore, an asset for the company.

Deferred tax liability is an account on a company's balance sheet that is a result of temporary differences between the company's accounting and tax carrying values, the anticipated and enacted income tax rate, and estimated taxes payable for the current year. This liability may be realized during any given year, which makes the deferred status appropriate.

3. Explain cash equivalents?

Cash and cash equivalents refer to the line item on the balance sheet that reports the value of a company's assets that are cash or can be converted into cash immediately. These include bank accounts, marketable securities, commercial paper, Treasury bills and short-term government bonds with a maturity date of three months or less. Marketable securities and money market holdings are considered cash equivalents because they are liquid and not subject to material fluctuations in value.

4. Difference between Depreciation, Depletion and Amortization

Depletion refers to the allocation of the cost of natural resources over time. For example, an oil well has a finite life before all of the oil is pumped out. Therefore, the oil well's setup costs are spread out over the predicted life of the oil well.

Depreciation is an accounting method of allocating the cost of a tangible asset over its useful life. Businesses depreciate long-term assets for both tax and accounting purposes.

Amortization is an accounting term that refers to the process of allocating the cost of an intangible asset over a period of time. It also refers to the repayment of loan principal over time.

5. What is accumulated depreciation?

Accumulated depreciation is the total depreciation for a fixed asset that has been charged to expense since that asset was acquired and made available for use.

6. What are free cash flows?

FCF is an assessment of the amount of cash a company generates after accounting for all capital expenditures, such as buildings or property, plants, and equipment. The excess cash is used to expand production, develop new products, make acquisitions, pay dividends and reduce debt.

$FCF = EBIT(1 - \text{tax rate}) + (\text{depreciation}) + (\text{amortization}) - (\text{change in net working capital}) - (\text{capital expenditure})$.

7. Explain Purchase Price and Profitability

Finance interview questions such as these try to assess the basic knowledge of the candidates. Following are the details.

Purchase price is the price one pays for something. This may be an asset, investment etc. It becomes the basis for calculating profit or loss incurred.

Profitability is the measure of profit (when income is more than expense). It is calculated with the help of profitability ratios which are as follows:

- Gross Profit
 - Net profit
 - Return on equity
 - Return on assets
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8. Difference between solvency and liquidity

This is one of the most common finance interview questions. Going by definition, solvency is firm's potential to carry on business activities in the foreseeable future, so as to expand and grow. It is the measure of the company's capability to fulfill its long-term financial obligations when they fall due for payment.

Liquidity is the firm's ability to fulfill its obligations in the short run, normally one year. It is the nearterm solvency of the firm, i.e. to pay its current liabilities.

9. Difference between an operating lease and a financial lease

A finance lease is often used to buy equipment for the major part of its useful life. The goods are financed ex GST and have a balloon at the end of the term. Here, at the end of the lease term, the lessee will obtain ownership of the equipment upon a successful 'offer to buy' the equipment. Traditionally this 'offer' is the balloon amount.

An operating lease agreement to finance equipment for less than its useful life and the lessee can return equipment to the lessor at the end of the lease period without any further obligation.

10. What is asset acquisition?

An asset acquisition strategy is the purchase of a company by buying its assets instead of its stock. An asset acquisition strategy may be used for a takeover or buyout if the target is bankrupt or is in a bad financial position.

11. Explain leverage ratio and solvency ratio

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet financial obligations.

The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-term and long-term liabilities. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations

12. What is preference capital?

Preference capital is the portion of capital which is raised through the issue of the preference shares. Preference shares are paid out to shareholders before common stock dividends are issued. This means that if a company becomes bankrupt the preferred stockholders are entitled to be paid from company assets before common stockholders. Preference capital has characteristics of both equity and debentures.

13. Difference between current ratio and a quick ratio

The current ratio is a financial ratio that investors and analysts use to examine the liquidity of a company and its ability to pay short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The current ratio is calculated by dividing current assets by current liabilities.

The quick ratio, on the other hand, is a liquidity indicator that filters the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities (you can think of the "quick" part as meaning assets that can be liquidated fast). The quick ratio also called the "acid test ratio," is calculated by adding cash & equivalents, marketable investments, and accounts receivables, and dividing that sum by current liabilities.

The main difference between the current ratio and the quick ratio is that the latter offers a more conservative view of the company's ability to meet its short-term liabilities with its short-term assets because it does not include inventory and other current assets that are more difficult to liquidate (i.e., turn into cash). By excluding inventory (and other less liquid assets) the quick ratio focuses on the company's more liquid assets.

14. What is working capital and what is networking capital?

Working capital is the amount of a company's current assets minus the amount of its current liabilities. The adequacy of a company's working capital depends on the industry in which it competes, its relationship with its customers and suppliers, and more.

Components of cash flow Statement

The components are:

- Cash flow resulting from operating activities.
- Cash flow resulting from investing activities.

- Cash flow resulting from financing activities.
 - It also may include disclosure of non-cash financing activities.
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15. What is goodwill?

Goodwill is an intangible asset that arises as a result of the acquisition of one company by another for a premium value. The value of a company's brand name, solid customer base, good customer relations, good employee relations, and any patents or proprietary technology represent goodwill.

Goodwill is considered an intangible asset because it is not a physical asset like buildings or equipment. The goodwill account can be found in the assets portion of a company's balance sheet.

16. How to calculate goodwill?

- Calculating Goodwill Using Average Profits – Avg profits * no of years.
 - Goodwill using super profits (Actual profit – normal profit) □ Goodwill by the capitalization of profits
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17. What is contingent liability?

A contingent liability is a potential liability that may occur, depending on the outcome of an uncertain future event. A contingent liability is recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably estimated.

18. What is NPA?

A nonperforming asset (NPA) refers to a classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days.

Around 7.7 Lakh cr. of NPA in India in the year 2017.

19. What are REITs?

REIT, or Real Estate Investment Trust, is a company that owns or finances income-producing real estate. Modelled after mutual funds, REITs provide investors of all types regular income streams, diversification, and long-term capital appreciation. In turn, shareholders pay the income taxes on those dividends.

20. What is the book value of a business?

The difference between the company's total assets (what all the company owns - land, building, cash, equipment etc) and liabilities (all the debts) is the book value of a company.

21. What is financial modeling?

It is the goal of the analyst to accurately forecast the price or future earnings performance of a company. Numerous valuations and forecast theories exist, and financial analysts are able to test these theories by recreating business events in an interactive calculator referred to as a financial model. A financial model tries to capture all the variables in a particular event.

22. What is the difference between private equity and venture capital?

Private equity firms mostly buy mature companies that are already established. The companies may be deteriorating or not making the profits they should be due to inefficiency. Private equity firms buy these companies and streamline operations to increase revenues. Venture capital firms, on the other hand, mostly invest in start-ups with high growth potential.

23. Which is cheaper debt or equity?

A company should always optimize its capital structure. If it has taxable income it can benefit from the tax shield of issuing debt. If the firm has immediately steady cash flows and is able to make its interest payments it may make sense to issue debt if it lowers the WACC.

24. What are accretion and dilution?

Accretion is asset growth through addition or expansion. Accretion can occur through a company's internal development or by way of mergers and acquisitions. Dilution is a reduction in earnings per share of common stock that occurs through the issuance of additional shares or the conversion of convertible securities. Adding to the number of shares outstanding reduces the value of holdings of existing shareholders.

25. How RTGS is different from NEFT?

NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place taking into account all transactions received till the particular cut-off time.

These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually on real-time basis. In NEFT any transaction initiated after a designated settlement time would have to wait till the next designated settlement time.

Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours.
