This document contains concise, interview-ready answers to every technical question listed. Answers are written in a clear, structured format suitable for direct use in investment banking interviews. After each answer below, interviewers often probe *why*, *what if assumptions change*, or *how this affects valuation*. Be ready to connect accounting mechanics to cash flow and valuation.

Understanding the why and how, and being able to go deeper into each answer, is crucial for these questions. Accounting, DCF, and merger questions are the most common in most interviews and test your understanding of the job itself.

It is imperative to time your answers, structure your answers and speak them out loud. JuniorMarkets offers mock interviews (Click here to learn more) where we go over these questions, and more, to help you practice your answers and make sure you are ready for all your technical interviews.

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## ACCOUNTING

1. **Can you walk me through the 3 financial statements?**

For this question, starting with the income statement, then going to the cash flow statement, and then balance sheet is the best way to make sure you stay on track.

**The Income Statement** shows profitability over a set period of time, starting with revenue then subtracting Cost of goods sold to get to gross profit. Then subtract operating expenses to get your operating income (EBIT) and end with net income. The **Cash Flow Statement** starts with net income and ends with actual cash generated or used. It is broken into operating, investing, and financing activities. The **Balance Sheet** shows a company's financial position at a specific point in time, listing assets, liabilities, and shareholders' equity where assets = liabilities + shareholders' equity

2. **What are the Major line items on each statement?**

**Income Statement**: Revenue, COGS, Gross Profit, Operating Expenses, Depreciation & Amortization (Embedded in Selling and general expenses which are operating or in other expenses, but is rarely listed by name) , Interest Expense, Taxes, Net Income.

**Balance Sheet**: Assets (Cash, Accounts Receivable, Inventory, PP&E), Liabilities (Accounts Payable, Accrued Expenses, Debt short term/long term), Equity (Common Stock, Retained Earnings).

**Cash Flow Statement**: Cash Flow from Operations (Net Income, D&A which you add back because it is a noncash expense, Net working capital changes), Investing (CapEx, acquisitions), Financing (Debt issued/paid, equity issued, dividends).

3. **How are the 3 statements linked together?**

Net income from the income statement flows to the top of the cash flow statement. Then by adding back your D&A and accounting for other operating, investing, and financing activities, the cash flow statement ends with change in cash. This change in cash flows into cash under current assets on the balance sheet. D&A from the CFS flows into Net property, plant, and equipment as a decrease on the balance sheet. Finally, net income also flows into retained earnings in shareholders' equity on the balance sheet.

4. **If you could only use one statement which one would it be?**

The Cash Flow Statement, because cash determines a company's ability to operate, reinvest, and service debt. Cash is King always remember!

5. **If you could only use two statements which ones would it be?**

Income Statement and balance sheet because if you had both of these over a time period you could technically make the cash flow statement.

6. **Can you walk me through a $10 increase in depreciation with a 25% tax rate?**

On the income Statement the operating expenses (EBIT) decrease by $10 and assuming a 25% tax rate, tax expense is 2.5 dollars. This leaves a net income decrease of $7.5 (tax-affected).

The -7.5 flows to the top of the Cash Flow Statement and after adding back the $10 depreciation because it is a non-cash expense, the overall change in cash is +2.5.

Finally, for the balance sheet, the +2.5 from the CFS flows into current assets as cash, the -10 in depreciation flows into net PP&E as a 10 decrease in assets, and the -7.5 in net income flows into retained earnings in shareholders' equity. This leaves total assets and total liabilities + equity down by $7.5, so the balance sheet balances.

**7. Why does depreciation affect cash?**

Because it reduces taxable income, lowering cash taxes paid. (See above questions)

**8. Where does depreciation appear?**

It appears in different places on the income statement for different firms but COGS for manufacturing firms or operating expenses for others. This varies depending on firm but by saying "COGS, operating expenses, embedded in SG&A, or on the cash flow statement in operating," will be enough to answer the question.

**9. Can you walk me through a $10 increase in accrued compensation?**

For this question, confirm that the accrued compensation is now being recognized as an expense (as opposed to just changing non-accrued to accrued compensation). Assuming that's the case, operating expenses on the income statement go up by $10, operating income (EBIT) falls by $10, and net income falls by $7.5 (assuming a 25% tax rate).

On the cash flow statement, net income is down by $7.5, and accrued compensation will increase cash flow by $10, so overall cash flow from operations is up by $2.5 and the net change in cash at the bottom is up by $2.5.

On the balance sheet, cash is up by $2.5 as a result, so assets are up by $2.5. On the liabilities and equity side, accrued compensation is a liability, so liabilities are up by $10 and retained earnings are down by $7.5 due to the net income, so both sides balance.

**10. How would the statements be affected if $10 of inventory is bought with cash?**

Income statement has no impact because nothing was sold and no expenses have been incurred in this period. On the cash flow statement operating cash flow decreases by $10 which leads to a $10 decrease in change in cash. On the balance sheet inventory (Current asset) increases by $10. So current assets increase by $10 and decrease by $10 (Cash decreases by $10 and inventory increases by $10), thus equaling out and the balance sheet balances.

**11. Why does inventory not affect the Income Statement?**

Expenses are recognized when inventory is sold (COGS), not when purchased.

**12. Can there be negative shareholders' equity?**

Yes. This occurs from accumulated losses or high leverage and signals financial distress. This can also occur when firms are paying very high dividends or have negative dividends. Just think about the retained earnings equation (Current retained earnings + net income – dividends = ending retained earnings) and what would make that equation negative. This is prevalent for REIT companies that have to pay 90% or more of net income out as a dividend.

**13. Can equity value be negative?**

No. This is because a company cannot have a negative share price or share count.

**14. What is working capital and how is it calculated?**

The common formula is current assets - current liabilities. A more accurate equation is current operating assets – current operating liabilities. NWC is used as a liquidity metric to see if a firm can cover its short-term liabilities. It is also used in the free cash flow formula as an addition.

**15. What does negative working capital mean? Is it always bad?**

Negative NWC is not necessarily a bad thing. In retail or subscription models these companies have high accounts payable (Which are short term liabilities) and can be a good thing. But for most companies a negative NWC means something is wrong and needs to be looked into as the current assets cannot be covered by current liabilities.

**16. When would cash be collected but not recorded as revenue?**

When cash is received before goods or services are delivered and this is referred to as deferred revenue. As you have received the cash, but since no good or service is provided, revenue cannot be recorded based on accrual accounting.

### 17. What is the difference between accounts receivable and deferred revenue?

Accounts receivable is when the revenue has been earned (Meaning the good/service **was** completed) but cash has not yet been collected. Deferred revenue is where cash has been collected, but revenue has not been earned (The good/service has **not** been completed yet).

### 18. Can you tell me about cash vs accrual accounting?

Cash accounting recognizes transactions when cash moves from one person/entity to the next. Whereas accrual accounting recognizes revenue when it has been earned or incurred.

### 19. When would you capitalize vs expense an asset?

Capitalizing means recording a cost as an asset on the balance sheet, implying that the benefits will be realized over a longer period and over multiple periods. This approach defers the recognition of the expense to future periods. Expensing, on the other hand, involves deducting the cost from the income statement immediately, indicating that the benefits are for the short term.

### 20. What is the difference between GAAP vs non-GAAP earnings?

GAAP (Generally Accepted Accounting Principles) earnings are calculated using standardized accounting rules to ensure consistency, transparency, and comparability across companies, including all financial transactions like depreciation, stock-based compensation, and one-time charges, providing a reliable baseline for investors.

Non-GAAP earnings or adjusted earnings exclude certain items deemed non-recurring, irregular, or non-cash. These include restructuring costs, asset impairments, or acquisition-related expenses. This helps to give a clearer picture of a company's operational performance and profitability, but they are not standardized and can be subjective.

### 21. Can a company have positive EBITDA but still go into bankruptcy? How?

Yes. EBITDA is calculated by taking operating income (EBIT) and then adding D&A from the cash flow statement. This means costs after operating expenses on the income statement and CFS can be reasons why this company goes bankrupt. So, the company could have taken on a large amount of debt or have debt maturities coming due, interest could be very high, the company could have high taxes, or something else out of the blue like a lawsuit.

22. **When does goodwill change?**

When one company acquires another there is almost always a premium paid on the actual cost of the business. So, if the shares trade for $20 the acquirer would have to pay more than that (Maybe $23-25 a share) for the company. This creates an imbalance in the financial statements as you are paying more for the equity than the amount of equity listed.

This is where goodwill comes in. Goodwill is the overall cost above the asset cost. This is created to balance the statements, and so goodwill can only change if it is re-evaluated, or if another acquisition/company selling occurs and then goodwill can change.

23. **What is a revenue model, and can you walk me through one?**

Revenue refers to a firm's total earnings from primary business operations. A revenue model is a layout that defines a firm's business operations and outlines how the business generates revenue. It comprises a catalog of all products or services, the pricing structure, and the distribution channel. Primarily, a business generates revenue from selling goods or giving services. It is shown as a top-line item in the income statement and is often referred to as gross sales. There are five types of revenue models: Recurring revenue (subscription based), Affiliate revenue (Most of revenue from commissions), sales rev structure (selling goods and services), SaaS rev structure (Software as a service such as zoom and slack), and ad rev structure (Offer promotional campaigns).

Ex answer:

"A revenue model explains how a company actually makes money and sustains its business. It outlines what products or services the firm offers, who the customers are, how much those customers are willing to pay, and how the company delivers that product or service to them. Such as whether revenue comes from one-time sales, subscriptions, ads or other forms. Different businesses can sell similar products but have very different revenue models depending on how they monetize them. The revenue model is important because it shows not just how a company earns money today, but how scalable, predictable, and sustainable that income is over time."

**24. What is an expense model, and can you walk me through one?**

"An expense model is essentially a structured financial tool that helps an organization understand, categorize, and project its costs over time by breaking them down into categories like fixed, variable, and one-time expenses. This considers factors like staffing, production, or seasonality and typically includes forecasts and differences to estimate the impact of different markets. It is primarily used for budgeting and planning to make informed decisions and monitor performance against firm projections."

**25. What are public comps and how do you use them?**

Public Comps are a valuation method that uses similar competitors multiples and metrics to estimate your company's metrics. By looking at EV/EBITDA, revenue multiples, and other metrics, you can estimate the value of your company. This is commonly used for private companies because they do not have an equity value, share price, or beta and so using a DCF is more difficult. The downside is that no two companies are exactly the same and while comps can give you a range of values, this will never give you an exact valuation as there are always differences.

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## DISCOUNTED CASH FLOW

**1. Can you walk me through a DCF?**

"To perform a DCF valuation, you first project a company's revenue, operating expenses, taxes, and repeatable cash flow items. These projections are used to calculate free cash flow over a forecast period, typically three to five years. Once the free cash flows are projected, they must be discounted back to their present value using WACC. After discounting each year's projected free cash flow, we sum them to get the present value of the forecasted period. Then we need to estimate the value of all future cash flows beyond that point. This is known as the terminal value and is calculated either by the Gordon Growth Method or the Exit Multiple Method. Once the terminal value is calculated, it is also discounted back to present value using the WACC. Finally, you add the present value of the forecasted free cash flows to the discounted terminal value. This total gives the implied enterprise value of the company. Then take the EV and add cash and subtract debt to get equity value."

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**Common follow ups after walk me through a DCF**

2. **What are the repeatable cash flow items?**

Depreciation and amortization, capital expenditures, and changes in net working capital.

3. **What is the WACC?**

This rate reflects the return investors expect for putting money into the company and accounts for both the cost of equity and the cost of debt. It is calculated by doing: Cost of equity x weight of equity + (cost of debt x weight of debt x (1 - tax rate)). More mature companies have a lower WACC because they are less risky. Startups and industries like tech have higher WACCs because investors need a higher return to make up for the increase in risk.

4. **What is the Gordon Growth Method?**

This assumes that cash flow will continue to grow indefinitely at a modest, stable rate, such as the GDP of the economy. This also correctly assumes a business cannot grow at a faster rate than the economy indefinitely. No company will grow 4% or 5% or 8% forever. Mature companies will grow around the 2-3% range and that is what this assumes.

5. **What is the Exit Multiple Method?**

This estimates the company's value based on a multiple of its financial metric, such as EBITDA, at the end of the forecast period.

6. **What is the Cost of Equity and where is it used?**

Cost of equity is used in the WACC formula and is Calculated using CAPM: Risk-free rate + Beta x Equity risk premium. This represents the return investors expect for owning equity and investing in the firm.

7. **What is Beta? Where is it used? Would a tech startup have a high or low beta?**

"Beta is a financial metric that measures how much a stock or portfolio's returns move relative to the overall market (Most of the time bench marked on the S&P 500). A beta of 1 indicates that if the S&P 500 goes up by 1% the stock will also go up by 1%. If beta is 2, the stock is more volatile than the market, meaning a 1% increase in the S&P would mean a 2% increase in the stock.

It is a key component of the Capital Asset Pricing Model (CAPM), which estimates the expected return of an asset as follows: Expected Return = Risk free rate + Beta x (Market Return - Risk-Free Rate)

Investors use beta to assess the risk of individual stocks, construct diversified portfolios, and make informed choices between high- and low-risk investments.

A tech startup would generally have a high beta, often greater than 1. This is because their performance is heavily tied to market perception, growth potential, and investor sentiment. Revenues and valuations can fluctuate significantly with new product launches, funding rounds, or industry trends. As a result, their stock prices tend to be more volatile relative to the broader market. High beta can be attractive to investors seeking high returns, but it also means much higher risk."

8. **How would you rank the 4 valuation methods from highest to lowest valuations?**

There is no hard rule as to which valuation method gives the highest valuation. This can heavily depend on assumptions, markets, and opinions. However, in an interview saying this is (as long as you understand each method) is what should be said.

"There is not a set rule of which valuation gives the highest, but if I had to rank them I would say precedent transactions would be the highest, and this is because of the premiums applied to transactions. Then I would say comparable companies, then DCF, and the lowest would be an LBO because this is the lowest amount (the floor) that a private equity firm would pay for a company. I would like to add though that a DCF can be the highest or lowest depending on your assumptions and market conditions."

9. **What is the main flaw of terminal multiples?**

The flaw of using terminal multiples is that the multiple assumes markets are correctly priced at exit. If there is a major bear or bull market multiples can be heavily deflated or inflated. This can cause enterprise value and selling price to be much higher or lower than it should be for that company.

10. **Would the cost of equity be higher for a $5B or $500M company?**

The cost of equity would be higher for smaller companies because they carry more risk. Investors expect higher returns for their investments because a 500-million-dollar company is presumably much younger and does not have the trust, patents, trademarks, customers or other differentiating factors that make bigger, more mature companies less risky.

**11. What costs more debt or equity?**

Debt is initially cheaper than equity. So, firms will generally take out debt before issuing equity because they can receive funding without having to give up equity in the company. However, firms cannot take on debt forever and at some point debt becomes more costly than equity.

There is not a set amount of debt that is too much or too little, it depends on size, cash flow, credit score, and different factors. But just to know debt is initially cheaper then becomes more risky as more is taken on and then depending on when that point is, equity becomes a better method for expansion.

**12. How would you find the Cost of equity without CAPM?**

Without using the CAPM formula for the cost of equity (Used in WACC) you can use a dividend discount model instead. A dividend discount model is essentially the same thing as a DCF but instead of using free cash flow and discounting and projecting that, you use the dividends the company pays and project those.
If a stock is priced at $50, with an expected dividend of $2 next year and a 5% growth rate:

$$R_e = \frac{2}{50} + 0.05 = 0.04 + 0.05 = 0.09 = 9\%$$

If the company does not pay dividends then you can do the same thing but with earnings and relate it to price.

**13. What is the difference between levered vs unlevered FCF?**

**Unlevered Free Cash Flow (UFCF)** is the cash generated by a company's operations before any debt-related payments, such as interest or principal repayments. It reflects the cash available to all capital providers, both debt holders and equity holders. Unlevered FCF is often used in valuation models (Such as the DCF) to calculate enterprise value (EV) because it provides a debt-neutral view of the company's ability to generate cash.

**Levered Free Cash Flow (LFCF)** is the cash available after accounting for interest payments and debt obligations. It represents the cash that only equity holders could theoretically receive, because it accounts for the company's financing structure.

Unlevered Free Cash Flows simplified equation (Be enough for interviews) UFCF = EBIT × (1 − Tax Rate)(Also known as Net operating profit after taxes) + Depreciation & Amortization − Capital Expenditures − Change in Working Capital

Levered Free Cash Flows simplified equation (Be enough for interviews) LFCF = Net Income + Depreciation & Amortization − Capital Expenditures − Change in Working Capital − Mandatory Debt Repayments

**14. What is the discount rate for levered FCF?**

As we just discussed levered free cash flow is the FCF available to only equity holders. Since it is only available to equity holders the discount rate (Which accounts for risk and required returns) needs to be the risk and required return for only equity holders. This means the cost of equity is used as the discount rate as this is the cost for only equity holders.

**15. How do you get per-share value? What about from a DCF?**

Share price is calculated by doing equity value divided by diluted shares outstanding. When using a DCF the DCF gets you to enterprise value (Adding terminal value to projected Free cash flows) and then by adding cash and subtracting debt you get to equity value.

Enterprise value + cash – debt = Equity value

Then you can divide by the shares outstanding and that is what gets you to your share price.

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## MERGER MODEL

These are some of the most important questions asked in investment banking and P/E interviews. They test your understanding of what the job entails, and why you have a job in the first place. Why companies buy other companies, and what the process entails for acquiring another company

**1. Can you walk me through a merger model?**

A merger model takes the revenue, costs, and profits of the buyer and the target, adjusts for the way the deal is financed (with cash, stock, or debt), and calculates the combined EPS to determine if the deal is accretive (increases EPS) or dilutive (decreases EPS). The model also considers potential synergies, like cost savings or increased revenues, and any adjustments such as goodwill or integration costs. Essentially, a merger model gives an at-glance view of whether the transaction makes financial sense and if it creates value for the acquirer's shareholders.

EPS – earnings per share – is what is most commonly looked at in mergers to see how the companies will be affected.

2. **What are synergies in a merger?**

Synergies are essentially 1 + 1 = 3. This means when a company buys another company there are two areas where money can be saved – Cost synergies and revenue synergies. Cost synergies arise because the company does not need two CEOs, CFOs, and most of the c-suite (This also applies to similar departments, technologies, HR systems, and other areas where 2 are not needed so 1 can be eliminated and the productivity stays the same/ increases). This means that they can be eliminated and save costs. Revenue synergies are harder to forecast because it is harder to estimate how much a new product, patent, customer base, or other asset acquired will impact revenues. Overall, synergies consider what can be combined and eliminated to increase the assets, while also eliminating duplicates that are acquired in the transaction.

3. **Why would a company acquire another company?**

There are a couple reasons as to why a company would acquire another company. The main ones include growth, synergies, diversification, competitive advantage. A company might acquire another company to grow into new territories or grow its size and capabilities. The acquisition could also have many potential synergies, such as cost synergies and revenue synergies. Diversification could also be a factor if the company wants to diversify its product portfolio, reach new areas around the world, or diversify its offerings. Finally, a competitive advantage could be obtained by acquiring a competitor. This could increase your market share, product, and customer base, and help give your company a significant advantage in the area or new area.

4. **Is there an easy way to tell if a merger will be accretive or dilutive?**

Yes but only if it is a 100% stock deal. If the P/E ratio of the buyer is higher than the P/E of the target company then the deal is almost always accretive. This is an easy rule of thumb and can be used for most transactions to assess very quickly whether the deal will be accretive or dilutive. It always works the other way if the P/E of the target company is higher than the P/E of the acquiring company.

5. **What are the effects of an acquisition?**

The main effects of an acquisition include goodwill creation, synergies, integration costs, EPS impact. Goodwill is created because of the reasons discussed earlier but, as a refresher, because there is a premium applied to the actual acquisition price of the target company. So, everything above the actual price that is paid goes into goodwill or intangibles. Synergies are also almost always created because of similar job titles, departments, and equipment. EPS (like we said earlier) is a very important factor and combining financials and seeing the changes in EPS is very important to see how earnings are effected.

6. **Would a company pay 100% cash for a company? Why wouldn't they?**

Generally, companies do not pay 100% cash for a company, and this is for different reasons, but it depends on the goals of the company. The company might want to start paying or raise dividend payments and needs cash for that. They also might want to buy another asset or something else they need cash for. Most companies, however, like to keep cash on their balance sheet in case something goes wrong and using that much cash to pay for a company can be risky if something were to go wrong financially.

7. **Who is willing to pay more for a company, a strategic buyer or a PE firm?**

A strategics buyer (Such as a company in the industry or looking to grow into that industry) is willing to pay more for a company due to synergies. The benefits these companies receive from buying another company, such as the synergies, diversification, and growth potential is worth more to them than the company is worth to a private equity firm. P/E firms are looking to either build the company up and sell it off after 3-7 years or disband it and sell it for parts. This means strategic buyers realize a lot more benefit from buying a company than a P/E firm and that is why they are willing to pay more.

8. **What is the difference between goodwill and other intangibles?**

Goodwill is excess paid on the purchase price. Because a premium is paid to acquire the company, the excess is put into goodwill to balance the statements. Intangibles are identifiable intangible assets, such as domain names, trademarks, brand value, and other intangible assets.

## OTHER TECHNICALS

These are other technical questions and variants I have been asked in interviews and how to go about coming up with an answer.

1. **Enterprise value vs equity value**

Equity Value is the value of everything a company has (Net Assets, or Total Assets – Total Liabilities), but only to equity investors (common shareholders). Enterprise Value is the value of the company's core business operations (Net Operating Assets, or Operating Assets – Operating Liabilities), but to all investors (Equity, Debt, Preferred, and possibly others).

Enterprise Value excludes Non-Operating Assets, such as Cash and Financial Investments, as well as Non-Operating Liabilities, such as Debt. Equity Value is known in the industry as "Market Cap," and for public companies, it's equal to Current Share Price x Shares Outstanding. So, we often use Enterprise Value when analyzing companies because it lets us reach conclusions without worrying about the companies' capital structures.

EV is calculated by doing: Equity value + debt – cash + preferred stock + minority interest

2. **Would you use equity value or EV in an LBO?**

In a leveraged buyout (LBO), understanding the distinction between enterprise value (EV) and equity value is very important. Enterprise value represents the total value of a company, including equity, debt, and other claims, less cash, and is used in calculating the purchase price, valuation multiples, and projecting exit valuations. In practice, EV is determined by multiplying the target's EBITDA by an entry multiple. Enterprise value is used for the entry and exit multiples, as well as the purchase price of the company. Because buying a company involves taking on debt and equity enterprise value is used.

3. **How is NWC used in FCF?**

Net working capital is used as an addition in the unlevered FCF formula. The formula is NOPAT (Which is = EBIT x (1- tax rate)) + depreciation and amortization – capex + NWC changes. NWC, as discussed earlier, is current operating assets – current operating liabilities and this is added to the FCF formula.

4. **Differences between EBITDA vs EBIT?**

Follow-ups:

- **When is EBITDA misleading?**

  EBITDA can be misleading if the company has high interest, taxes, or D&A costs. These can account for big changes in the financial statements and disregarding debt payments through not looking at interest and payments to the government through taxes can be misleading.

- **Why do lenders prefer EBITDA?**

  EBITDA strips out the effects of financing decisions, tax structures, and non-cash accounting items. By focusing on EBITDA, companies can evaluate how effectively a company is generating profit from its operations alone, which is particularly useful when comparing performance across different markets or industries where capital structure and taxation vary. This approach helps identify areas where operational improvements can lead to better overall financial outcomes.

5. **What is adjusted EBITDA?**

Adjusted EBITDA is a financial metric that includes the removal of various one-time, irregular, and non-recurring items. This can include but is not limited to a goodwill impairment expense,  gain on the sale of a non-core asset, a one-time litigation expense, stock-based compensation, unrealized loss on foreign exchange, and other irregular one time expenses. This gives a more realistic number for EBITDA and adjusts it to give a more normalized number.