

Top 20 Finance Interview Questions And Answers 2024

1. Can you explain the term finance?

Finance is defined as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, and forecasting.

2. Can you brief me about the Financial Statement?

The Financial Statements show the profitability and the financial position of the business. The financial statement includes the following major statements viz.,

- the Balance Sheet
- Statement of Profit & Loss, and
- Cash Flow Statement.

3. What is a Cash Flow Statement? Explain

A cash flow statement shows the cash received in a year and the cash paid during the year. The three activities of the cash flow statement determine the sources and application of cash. These three types of activities are as follows:

- Operating
- Investing, and
- Financing activities.

4. What is a Liquidity Ratio? What are its types?

How to know if the company is in a position to pay its liabilities when they become due? So, we have to calculate the Liquidity Ratio to know the position. Liquidity ratios include the following :

- Current Ratio, and
- Liquid Ratio.

5. What is the Return on Equity (ROE)?

While there are several tools available to calculate the profitability of the company, Return on Equity stands out as the best. Two factors are involved in (ROE) viz., efficient management of funds and assets, and generating profits.

6. What do you mean by the term Capital Budgeting? Name the commonly used techniques.

Capital Budgeting is the decision to invest money in capital expenditure projects. However, these decisions give long-term benefits. The following are the techniques of capital budgeting:

- Payback Period.
- Discounted Pay-Back Period
- Accounting rate of return
- Net Present Value (NPV)
- Profitability Index

7. Can you tell me what is Loan Syndication?

When a group of banks finance a big project instead of one single lender, this process is called loan syndication. Loan syndication occurs for the following reasons:

- When the loan amount is very big, and
- The idea is to spread the risk amount to all lenders.

8. What are the features of Debentures?

The features of debentures are as follows:

- The debenture is a form of borrowing.
- They carry a fixed rate of interest.

9. What is Preference Capital?

Preference Capital is a type of capital raised by the Company by issuing preference shares. Preference means priority. So, when the company is wound up, the capital and dividends of preference shareholders are paid out on a priority basis.

10. What is meant by Hedging? What are the types?

Hedging is a step taken by an investor to avoid future losses. It involves buying or selling an investment. Thus, it helps reduce the risk of loss of a given stock. It is an advanced risk management strategy. The types of hedging are given below:

- Fair Value Hedges,
- Cash Flow Hedges and,
- Net Investment Hedges.

11. What are the ways to manage Working Capital effectively?

Effective management of working capital involves the following steps, viz.,

- Keeping enough stock to meet the needs and avoiding over-stocking,
- Collecting receivables from customers regularly, and
- Negotiating good payment terms from suppliers.

12. Are Commercial Banks different from Investment Banks?

Commercial Banks Take deposits from people and Help businesses by giving them loans. At the same time, **Investment Banks** deal with Companies. To raise money from the public in the form of shares and debentures, they offer proper advice to the company.

13. Can you brief me about Non-Performing Assets?

These Assets do not generate any income for the bank. It is because the borrower has not made any payment. It, therefore, results in a loss to the banks since they will not receive any income from the loan.

14. What is beta? What does it indicate?

Beta measures the movements in the price of a stock compared to the overall market. If the **beta is higher than 1**, the stock is considered as high risk. However, If the **beta is less than 1**, the stock is considered less risky.

15. What is a Dividend Growth model?

According to the Dividend Growth Model, the effect of market conditions are irrelevant. The value of a stock, therefore, depends upon the following two factors:

- dividend paid during the current year, and
- the future growth.

16. What is meant by restructuring?

Restructuring is a step taken to put a company back on the rails by taking the following steps:

- Agree with the creditors or shareholders, and
- Change the financial and operational structure.

17. What do you mean by the Secondary Market?

The secondary market is a place where previously owned shares are bought and sold. Major stock exchanges are the secondary market.

18. What is meant by Swap Ratio?

The Swap Ratio is a formula used during mergers or acquisitions. The number of shares of the buying company that are given in exchange to the selling company **forms the swap ratio**.

19. What are call and put options?

A **Call** option Is the right to buy an asset at a fixed price and on a future date.

A **Put** option is a contract that is about the right to sell. It should be an asset and must be at a fixed price to be sold on a future date.

20. Can you brief me about Financial Risk Management?

It tells you the method to identify the business risk. It examines the impact of the risk and then takes steps to minimize the risk. The company uses financial instruments to hedge a business against these risks. The various types of financial risks are given below:

- Operations risk,
- Foreign exchange risk,
- credit risk, and
- Reputational risk.