

Wall Street Playbook.

FREE FIELDNOTES / INVESTMENT BANKING

20 banking technical questions, explained

Answer each question aloud before reading the explanation. These are editorially selected foundations, not a database of questions guaranteed to appear in an interview. The examples use simplified assumptions so you can isolate the mechanics.

THE TASK

Find the concepts you can explain and the calculations you still need to practice.

Foundational technical preparation | Suggested session: 45 minutes

Updated 2 October 2026. Original exercises with stated assumptions and source notes.

How to use this resource

Work through the prompts before checking the answers. Keep a record of the assumption or step that caused difficulty, then repeat that part without notes. The suggested timing is a study aid, not an employer assessment standard.

01 / Accounting and cash

1. What do the three main financial statements tell you?

The income statement measures performance over a period. The balance sheet shows assets, liabilities and equity at a date. The cash-flow statement explains the period's change in cash through operating, investing and financing activities. A complete set also includes changes in equity and explanatory notes.

Check: A profitable company can still use cash if customers have not paid or it is investing heavily.

2. How are those statements linked?

Net income feeds retained earnings, subject to dividends and other equity movements. Under the indirect cash-flow method, net income is adjusted for noncash charges and operating balance changes. The resulting cash movement, including investing and financing flows and any applicable currency effect, reconciles beginning to ending balance-sheet cash.

Check: Do not assume a balance-sheet change always equals a cash-flow line: acquisitions, currency and reclassifications can create differences.

3. What happens when depreciation rises by \$10?

Assume a 25% tax rate, an immediate cash tax benefit, no other changes and no new asset purchase. EBIT falls \$10; net income falls \$7.50. Add back the extra \$10 of noncash depreciation, so operating cash rises \$2.50. Cash rises \$2.50, PP&E falls \$10 and retained earnings falls \$7.50. Both sides of the balance sheet fall \$7.50.

Check: If there is no current tax benefit, the cash and deferred-tax effects differ. State the tax assumption first.

4. Why can working capital consume cash?

An increase in operating receivables or inventory ties up cash; an increase in operating payables can temporarily fund operations. In a simplified operating net-working-capital definition, use receivables plus inventory minus payables. If these change by +\$12, +\$5 and +\$7, operating NWC rises \$10 and reduces free cash flow by \$10.

Check: Define the accounts used. Accounting current assets minus current liabilities is broader than the operating NWC commonly used in a DCF.

02 / Enterprise and equity value

5. What is the difference between equity and enterprise value?

Equity value belongs to common shareholders. Enterprise value is a valuation of the operating business attributable to its capital providers, under the bridge you specify. A common bridge adds debt, preferred stock and noncontrolling interests to common equity value and subtracts excess cash and other nonoperating investments.

Check: Keep the numerator consistent with the earnings measure. EV/EBITDA and equity value/net income address different claims.

6. Walk through an EV-to-equity bridge.

With EV of \$500, debt of \$140, preferred stock of \$20, noncontrolling interests of \$10 and excess cash of \$30, common equity value is $\$500 - \$140 - \$20 - \$10 + \$30 = \$360$. With 40 diluted shares, implied value is \$9 per share. All dollar inputs are in millions.

Check: Do not subtract debt twice or add cash already included in a nonoperating-asset adjustment.

7. Can equity value exceed enterprise value?

Yes. If excess cash and other nonoperating assets exceed debt and other claims added in the bridge, common equity value can exceed EV. An operating business worth \$100 with \$50 excess cash and \$20 debt has equity value of \$130, ignoring other claims.

Check: Required operating cash is not automatically excess. Explain your cash treatment.

03 / Discounted cash flow

8. Walk through an unlevered DCF.

Forecast operating free cash flow, estimate a terminal value after the explicit forecast, discount both at a rate consistent with their risk and timing, and bridge operating value to common equity. Divide by the relevant diluted share count. Test the operating assumptions and terminal economics, rather than treating the discount rate as the only source of uncertainty.

Check: An unlevered DCF values cash flow before debt servicing; use WACC rather than the cost of equity for this convention.

9. How do you calculate unlevered free cash flow?

A common simplified expression is $EBIT \times (1 - \text{tax rate}) + D\&A - \text{capital expenditure} - \text{increase in operating NWC}$. With EBIT \$80, tax 25%, D&A \$15, capex \$25 and NWC investment \$10, UFCF is $\$60 + \$15 - \$25 - \$10 = \$40$. It excludes interest and debt repayments.

Check: Model cash taxes and other operating adjustments explicitly when the simple tax-rate assumption is inadequate.

10. What are the two common terminal-value approaches?

Perpetual growth uses next-period cash flow divided by WACC minus growth. If final forecast UFCF is \$40, growth is 2% and WACC is 10%, terminal value is $\$40.8 / 8\% = \$510$ at the end of the forecast. An exit-multiple approach applies a supported valuation multiple to a consistent terminal earnings metric.

Check: Growth must be below the discount rate in the perpetual-growth formula. Discount the terminal value back to the valuation date.

11. What is WACC?

WACC weights the required returns of the relevant capital sources by their market-value proportions. With 75% equity costing 12%, 25% debt costing 6%, and a usable 25% interest tax shield, WACC is $75\% \times 12\% + 25\% \times 6\% \times 75\% = 10.125\%$. Add other capital classes when material.

Check: Historical book weights and an assumed tax shield may be inappropriate. State the target capital structure and tax assumptions.

04 / Comparable valuation

12. How would you build a trading-comparables analysis?

Choose businesses with relevant operations and economic characteristics, collect prices and financials on consistent dates, calculate enterprise and equity values, normalize financial definitions and compare multiples. Explain differences in growth, margins, risk and capital needs before selecting a range.

Check: A shared industry label alone does not make two companies comparable.

13. Must acquisition multiples exceed trading multiples?

No. Control, expected synergies and auction competition can raise an acquisition price, but distressed conditions, market timing, different assets and inconsistent financial definitions can reverse the comparison. A precedent set and a trading set rarely contain identical companies measured at the same time.

Check: Do not insert a standard control premium without evidence relevant to the transaction.

14. Which valuation method produces the highest value?

There is no fixed ranking. A DCF depends on forecast cash flows and discounting; trading multiples reflect the selected public-company set and date; transaction multiples reflect the selected deals and their terms. Show the assumptions that explain the spread.

Check: A valuation range is not validated simply because three methods overlap.

05 / Mergers and acquisitions

15. How do you test EPS accretion or dilution?

Compare pro forma EPS with the buyer's standalone EPS on a consistent period basis. A buyer earns \$100 on 50 shares, or \$2.00 EPS. If an all-stock deal adds \$20 net income and requires 8 new shares, simplified pro forma EPS is $\$120 / 58 = \$2.07$, about 3.45% accretive. This ignores synergies, purchase accounting, fees and other adjustments.

Check: EPS accretion does not establish that the buyer paid a good price or created value.

16. What goes into a merger model?

Specify price and consideration, determine financing and new shares, allocate the purchase price, combine the statements, and include purchase-accounting effects, financing costs, synergies and integration costs with explicit timing. Reconcile sources and uses, the balance sheet and pro forma EPS.

Check: Keep one-time transaction costs separate from recurring earnings effects. Accounting treatment depends on the item and applicable framework.

17. What is goodwill?

In a simplified acquisition of 100% of a business, goodwill is purchase consideration minus the fair value of identifiable net assets acquired. Consideration of \$150 and identifiable net assets of \$110 produces \$40 goodwill. More complex cases require treatment of noncontrolling interests, prior stakes and other acquisition-accounting items.

Check: Goodwill is not a plug that proves the business is valuable; later impairment analysis is a separate question.

06 / Leveraged buyouts

18. Walk through an LBO.

Set entry valuation and funding, reconcile sources and uses, project cash available after operations and required investment, model interest and debt repayment, and calculate exit equity after remaining debt and other claims. Compare sponsor proceeds with invested equity using MOIC and a cash-flow-timing-consistent IRR.

Check: Interest conventions, cash sweeps, minimum cash and interim distributions matter. Ask which simplifications are intended.

19. What makes a business able to support acquisition debt?

Assess recurring cash generation, investment needs, working-capital volatility, customer concentration and downside resilience. A high accounting margin alone does not pay interest. Compare the debt structure and maturity schedule with cash generation under weaker operating conditions.

Check: A desirable business may still be a poor acquisition at an excessive price or with an unsuitable debt structure.

20. Where do LBO equity returns come from?

In a simplified exit bridge, earnings growth increases enterprise value at a constant multiple; debt repayment increases equity value; multiple changes alter exit enterprise value. Interim distributions also contribute to sponsor proceeds. Entry leverage changes how much equity is invested and magnifies both gains and losses.

Check: Do not count debt repayment twice by treating it as both a distribution and a reduction in exit debt.

A five-question check without your notes

- Recalculate the depreciation example at a 30% tax rate.
- In the EV bridge, reduce excess cash to \$10. What is common equity value?
- Increase annual capex in the UFCF example from \$25 to \$35.
- Issue 12 shares instead of 8 in the merger example. Is the deal accretive?
- A sponsor invests \$100 and receives \$200 only at the end of year five. What is MOIC and approximate annual IRR?

My calculations and assumptions

Two answers I could explain clearly

One concept to revisit tomorrow

WORKED ANSWER

Answer check

1. Net income falls \$7; operating cash rises \$3; cash +\$3 and PP&E -\$10 reconcile to retained earnings -\$7 under the stated assumptions. 2. Equity value is \$340. 3. UFCF falls to \$30. 4. EPS is $\$120 / 62 = \$1.9355$, about 3.23% dilutive. 5. MOIC is 2.0x; IRR is $2^{(1/5)} - 1 = 14.87\%$ when there are no interim flows.

Treat the result as a study diagnostic. It is not an employer score or an estimate of your chance of receiving an offer.

Source notes and next steps

SEC: financial statement fundamentals

Background on statement purposes and links. Numerical examples are original and use the assumptions stated here.

<https://www.sec.gov/about/reports-publications/investorpubsbegfinstmtguide>

Microsoft: IRR function

Documents equally spaced cash-flow IRR. Irregular dates require a timing-aware calculation such as XIRR.

<https://support.microsoft.com/en-us/excel/functions/irr-function>

Continue when you have identified a gap

Use the full guide for a larger question set, longer explanations and linked diagnostic drills after you identify a specific gap.

Preview the full technical guide

Read this resource online and find the current edition