Finance Interview Questions

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The financial services industry is one of the most competitive in terms of there being more qualified applicants than there are job openings. Skilled financial analysts – especially if they are bright and personable – are much coveted by financial services firms, from banks and insurance companies to private equity firms and non-profits. As an interviewer or hiring manager, your job is to recruit cream of the crop applicants for your firm. A good, solid interview process helps you achieve that goal.

The Financial Analyst Interview Process

Interviewing and hiring processes have become increasingly sophisticated because employers want to make sure they identify the best person for the job. Questions for a potential financial analyst will not be limited to just technical questions about financial analysis or economics. Also included should be behavioral questions aimed at finding out what kind of person an applicant is, and situational questions to determine how they would handle various conflicts, circumstances, or problems.
You should also try to tailor your questions to identify the key skills specifically related to the job position that you're conducting interviews for.

Skills to Look For

Generally speaking, you're going to want to find an applicant with sharp financial acumen, who is a skilled financial modeler and analyst, detail-oriented, and who has excellent communication skills. (That's because analysts are frequently called on to present reports to company executives and/or clients.)

In addition, your ideal candidate should have a high level and broad range of technical skills. They should be fluent with a number of the various financial analysis software programs available – such as Excel, SQL, QuickBooks, Python, Power Query, Tableau, and Power BI (business intelligence) – along with having an acceptable level of educational attainments and professional certifications (such as CFI's Financial Modeling & Valuation Analyst® or Certified Banking & Credit Analyst®).

See Who Impresses You at the Close of the Interview

Interviewers often look to wrap up the interview by offering to let the applicant ask any questions that they may have. Nine out of 10 interviewees usually fail to come up with anything much beyond a mumbled, “Not at this time”. A sharp applicant will reveal that they’ve done their homework and come to the interview well-prepared by posing one or more questions such as the following:

1 – What are the characteristics that you think distinguish your best financial analysts?

2 – Would I be more likely to spend most of my time working independently, or with a team?

3 – What software programs do your analysts employ for doing data collection, financial modeling, analysis, and reports or presentations?

4 – Ongoing professional training is important to me. To what extent will the company assist me in pursuing opportunities to expand my skill set and earn additional professional certifications?

Finance Interview Questions and Answers

1. **What are the key metrics or factors to consider with regard to potential investments?**

   This question is aimed at helping you to assess an applicant’s basic understanding of what to consider in the process of selecting investments. A sharp candidate will tailor their answer to the specific nature of selecting investments within the business context your company operates in. For example, if interviewing for a job with a private equity firm, then an applicant should mention that one of the factors to consider would be how well the potential new investment fits in with the company’s existing investment portfolio. Other factors a good answer might include are return on investment (ROI), industry trends, and risk tolerance.

2. **Why aren’t dividends included on a company’s income statement?**

   With this question you can discover an applicant’s understanding of what dividends are and how they are handled within the context of business financial analysis. The reason the income statement doesn’t list dividends is because they’re not an ordinary, core business operating expense. When dividends are declared, they first appear as a statement of change in the shareholders’ equity. Once they’ve been paid, dividends are recorded in the “financing” section of the statement of cash flows. A really good answer to this question will note all of the above.

3. **What’s the best financial metric to use for evaluating a company’s stock price?**

   There’s not one specific right answer to this question. All you’re looking for here is the applicant’s ability to demonstrate that they’re familiar with commonly used financial metrics and that they’re able to provide a logical reason for choosing whatever metric they select. For example, an applicant might respond by saying that they favor the Price-Earnings to Growth (PEG) metric because, (A) it is a good indicator of a company's overall financial health, and (B) it's superior to the traditional PE metric because it takes into account projected growth. A very good candidate for the job might reveal further knowledge by mentioning one or two alternate metrics that they might consider, depending on the specific stock being evaluated.

4. **What's the effect on the cash flow statement if your business experiences a slowdown in collections of accounts receivables?**

Accounts receivable are listed as assets on the balance sheet. An increasing figure creates a negative impact on working capital and therefore reduces cash from operations on the cash flow statement. Of course, the practical effect is going to be a reduction in available cash on hand, one that could eventually lead to significant financial and operational problems if, for example, the company doesn't have enough cash on hand to pay suppliers or creditors when payments are due.

A good answer to this question will reflect not only that the applicant knows what the effect on the balance sheet will be, but the potential operating importance of such a slowdown in collecting accounts receivable.

5. **What are the most common criticisms that you've received regarding your work?**

This is a question designed to reveal the level of an applicant's self-awareness and their ability at self-assessment. Their answer can help you in assessing how well they listen to and respond to criticism when it's received and, beyond that, give you some indication of how seriously they work on trying to improve their performance when shortcomings are pointed out to them. With any employee, you want to be assured that they can handle constructive criticism appropriately – not take it personally or become offended, and instead turn it to their advantage by taking the opportunity to improve their skills.

A good answer to this question might note habits such as setting aside time to carefully consider any criticism received and work out a specific plan for improvement. A sharp applicant might relate a specific instance of receiving criticism, making improvements, and then going the extra mile by verifying their improvement with the person who had offered the criticism.

6. How do you handle failure?

This question is, to some extent, a variation of the preceding one but framed within a slightly different context. Sometimes things go wrong and just don't work out. Employers don't want employees who are traumatized or paralyzed by failure in such situations. They want to know that they can count on them to interpret failure as a learning opportunity that will ultimately lead to success.

An honest, intelligent applicant will reveal in their answer that they're aware of the basic fact that occasional failure is part of life – and go on to state that they welcome the opportunity to learn from their mistakes and that they're able to maintain a positive attitude even in less-than-ideal situations. A very good answer might include relating a personal experience where the applicant quickly made positive changes following an instance of failure, changes that minimized damage and eventually produced positive results in the form of improved business operations.

7. What's your biggest weakness?

This is another question that can help you gauge an applicant's level of self-awareness and honesty. It may also reveal how good they are at quickly thinking on their feet. An indication of such a talent may be revealed by the applicant spinning this question around from a negative to a positive by giving as their answer a "weakness" that might be interpreted as a "strength" – for example, stating that they have to guard against becoming a "workaholic", monitoring themselves to make sure that they're not in falling into the habit of working several hours past the end of the scheduled workday and, thereby, becoming "burned out".

A good answer might also include the applicant mentioning that they regularly engage in self-assessment and create specific plans for working on improving in areas where they see that they can perform better.

8. Tell me about some positive and negative management experiences that you've had.

Financial analysts commonly work as part of a team that works to improve the overall financial and operational performance of a business. They are often in a supervisory position in relation to some other employees, but must also work closely with their own supervisors, such as a company's Chief Financial Officer. Analysts are frequently responsible for giving reports to executive management personnel.

Therefore, this question serves two purposes: (1) to get an indication of how good an applicant is at effectively managing others, and (2) to indicate how easy the applicant is for a supervisor to effectively manage. An example of a good answer here is the applicant stating that they enjoy putting together an efficient team and that they consciously work to establish good relationships with co-workers.

9. Why do you want to leave your current job position?

An applicant's answer to this question can provide you with some insight as to what's really important to them in a financial analyst position and clues as to their long-term career goals. With the information they provide, you can then examine the question of whether the position your company may offer them is likely to be satisfying for them – or if, alternatively, they're likely to become dissatisfied with working for your firm for the same reason(s) that they eventually became dissatisfied with their current or previous job.

A good response might mention something that particularly appeals to the applicant about the job they're being considered for or about the company in general. For example, an applicant might say that they were partially attracted by your company's willingness to support continuing education, because they hope to work on getting a master's degree in their field.

A plus for applicants who mention in their answer that loyalty and commitment to their employer are key values.

10. Why do you want to come work for us?

This is just an elaboration on the previous question. It's a question that is often used to try to determine whether an applicant really wants the specific job they're applying for, or just wants a job, period – any job. Obviously, you should prefer to see indications of the former rather than the latter.

A good answer to this question will reveal that the candidate has researched your company enough to determine the specific kind of opportunities that it offers them, and why they want to pursue those specific opportunities. They might say something like, "I'm really impressed with your company's year-over-year growth. Frankly, I'd like the opportunity to work with a company that I expect to be the dominant leader in the industry for years to come, improving products and services, and expanding into new markets. I'd like to be a part of that, and I honestly believe that I can help you grow your business."

11. Why should we hire you instead of someone else?

This is usually just an honest question designed to help the interviewer make the best hiring decision possible. It asks an applicant to point out what they believe makes them the best choice for the job. This can be an especially important interview question, depending on the answer you get.

A good response to this question will be one that matches the applicant's specific abilities with your company's specific needs. For example, an applicant might answer by saying something like, "I know that a key part of your efforts to expand overseas is going to be the success – or failure – of your new office in Singapore. Thanks to my previous experience working at (Company X), I know the Singapore market and what it takes to succeed there in this industry – and I know people there who can open important doors for us."

Some applicants may not be able to mention a specific matching skill, but may still impress you with a strong, confident statement about their overall abilities as a financial analyst - something like, "All modesty aside, I honestly believe that my ability to construct accurate predictive financial models is well above average and will help enable your company to operate with optimal efficiency."

12. What have you thought about in the way of obtaining further professional credentials or certifications?

For a financial analyst, there are several different certifications or professional designations they can earn, such as Certified Financial Analyst (CFA) and Chartered Financial Consultant (ChFC). By asking this question, you can easily gain some insight as to how dedicated an applicant is to continuing to develop and expand their skill set. Their answer may also indicate how continuing education may be preparing them for a higher-level executive position in the future.

A good answer will clearly indicate an applicant's commitment to continuing to improve themselves. Even if they haven't already attained some professional certifications beyond just a university degree, such as CFI's Financial Modeling and Valuation (FMVA) certification or Capital Markets and Securities Analyst (CMSA) certification, they may at least note one or two certifications that they plan on pursuing. A sharp applicant might ask for your opinion as to which professional certification programs would be most helpful to them in the position that they're applying for.

13. Tell me about a time when your financial analysis went horribly wrong. What should you have done differently, and what did you learn from the incident?

Everyone makes mistakes sometimes. What you want to learn from posing this question is how well an applicant responds to making mistakes by taking the opportunity to learn from them, rather than just being upset by them.

A good candidate will describe a mistake forthrightly, without making excuses for themselves. They will then relate what they learned from the incident and how they changed procedures or something else to prevent the same mistake from happening again.

For example, the applicant might relate an instance where they did what turned out to be a horribly flawed analysis of an investment that their company was considering making in another company. According to their calculations, everything looked great, but, a year later, the investment had turned out to be a disaster. Revenues from the investment were less than half of what the applicant had projected. In the end, they discovered that where they went wrong was in assuming that the stock metrics that they used were not the best metrics for evaluating this particular company, which operated in a relatively small, niche industry – an industry that they were largely unfamiliar with. Their takeaway from the incident was to make changes to the construction and testing of assumptions used for evaluating equity investments, so that, in the future, the models relied more heavily on specific information collected about the company and its industry, and considerably less on generic assumptions about the marketplace.

14. What do you think is the one best valuation method to use when examining a company, and why?

This is another of those questions where there's not a single, technically "right" answer. What you hope to gain from this question is, primarily, seeing the applicant demonstrate that they are familiar with the three valuation methods – discounted cash flow (DCF) analysis, comparable company analysis, and precedent transactions analysis. The question also offers a good opportunity to assess an applicant's reasoning process.

If you want to get a really firm assessment of the applicant's skill level, you can even go as far as asking them to perform an on-the-spot analysis, using one, two, or even all three methods. Bonus points for applicants who aren't rattled by such a request for an on-the-spot performance.

An applicant with a good answer to this question will likely note what they like about each valuation method, its particular strength insofar as what it reveals about a company. They might also mention some secondary metrics that they might utilize to support their primary valuation method.

15. What profitability model do you favor using when forecasting the profits for a specific project?

This question is much like the previous one, in that what you're looking for is not a specific answer, but just a chance to assess an applicant's understanding of concepts such as revenue streams, implicit and explicit costs, net present value, and billable hours.

You might again ask for a demonstration of an applicant's skill by posing a hypothetical, such as, "A client wants to upgrade one of their parts from plastic to natural wood. The upgrade will cost 'x' amount of dollars. The client believes it can charge customers an additional 'a' amount of dollars for the upgraded version. Evaluate whether doing the upgrade is a worthwhile project."

16. How would you handle a situation where you've found a potential error within the details of your client's cash flow statement?

This kind of question is looking for an applicant's ability to identify a problem and efficiently remedy the situation. A good answer typically includes the following elements:

- Run the numbers to be certain that there is, in fact, an error or discrepancy

- Make some quick notes about the potential ramifications of the problem if left uncorrected, and about the easiest ways to fix the problem

- Set up a meeting with a supervisor as soon as possible; present findings and thoughts on the problem, and get input and/or direction from him or her on how to proceed

17. After working as a financial analyst for some time, is there a different role or career path that you want to pursue?

This is just the financial analyst interview version of the generic job interview question, "Where do you see yourself in five or ten years from now?" It can, first of all, reveal whether you can reasonably depend on the applicant, if hired, to stick around a while. It's not worth the time and trouble to hire and train an employee if they're going to leave next month when their application elsewhere is successful.

A promising analyst might mention that they envision a career path where they work their way up to becoming a senior analyst with your firm, after which they think they might be interested in becoming a treasury manager or chief financial officer (CFO).

18. Explain "financial modeling" to me.

Because financial modeling is such a key responsibility of a financial analyst, you want to be sure that any applicant is well-versed in it. The following are some points of knowledge to look for in a good answer:

- Financial modeling is a form of quantitative analysis that is used for predicting or forecasting probable future outcomes. It's commonly used to help management determine prices or to help design marketing strategies. Financial modeling examines both costs and revenues – historical, current, and potential future costs and revenues. It can then be used to run various "what if" scenarios, comparing various possible business or investment choices, to assist executive management in making informed decisions that will, hopefully, optimize profitability for a business enterprise.

- Financial modeling is frequently applied to assessing the value of a company, making operational or strategic business decisions, and in budget planning and forecasting.

- Commonly used financial models include the leveraged buyout (LBO) model, initial public offering (IPO) model, and the discounted cash flow (DCF) model.

19. Is it possible for a company to be in significant financial trouble even though it still has a net positive cash flow?

This question can help you determine whether an applicant has a strong grasp of the basic principles of corporate finance, and the ability to analyze financial statements, and determine how cash is moving in, through, and out of a business – to confirm whether or not the enterprise is actually making money.

An applicant should be able – with perhaps a moment or two of deeper thought – to envision at least one or two scenarios where positive cash flow, but overall financial distress might co-exist, such as the following:

- The company is selling inventory, thus generating cash flow, but holding off on paying its accounts payables

- A business currently has strong revenues and cash flow, but future revenue forecasts project revenues declining substantially over time

20. Describe the difference between a ledger and a journal.

Financial analysts are frequently tasked with reviewing both journal and ledger entries for accuracy and completeness. Therefore, they should have a solid understanding of both types of records and be able to give an answer to this question that goes beyond just noting that a journal is a more informal, precedent record, as compared to what is commonly referred to as the general ledger.

A solid answer should first of all reflect the applicant's understanding of the key differences between journal and ledger entries. In a journal, all financial transactions of a business are recorded as they occur. That is, they appear in chronological order, showing the date of the transaction, a brief description, and whether the entry is a credit or debit. In contrast, when records of transactions are entered into the general ledger, transcribed from the journal, they are organized into categories for proper accounting purposes and do not necessarily appear in chronological order.

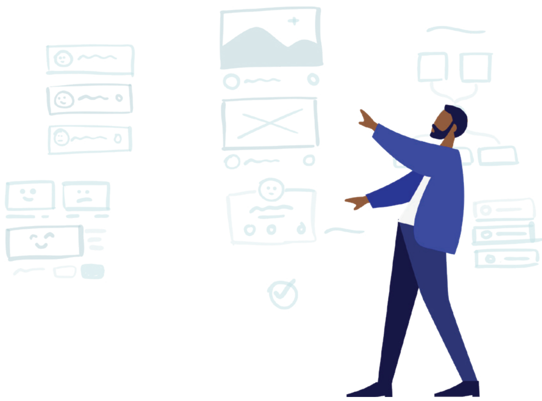
The applicant should also be familiar with the categories and sections that a general ledger organizes journal entries into:

- Assets
- Liabilities
- Revenues
- Expenses
- Owner's Capital

21. Explain financial ratio analysis and how financial analysts use ratios.

Examining financial ratios is a key skill that financial analysts can use to obtain more information and deeper insights into a company's overall financial health and its position in the industry relative to its competitors. The answer you get to this question should provide a firm indication of an applicant's knowledge and skill level in this important area of financial analysis.

A good applicant should be able to provide a workable definition of financial ratios – that they reflect the relative magnitude of a pair of selected numbers that can be found in a company's three basic financial statements. For example, the debt-to-equity ratio reveals how much of a company's financing comes from debt, as compared to the amount that comes from equity. Popular ratios include price-to-earnings, price-to-book, working capital, and inventory turnover. An applicant should also be able to demonstrate their knowledge of the usefulness of financial ratios, such as the fact that looking at different ratios helps company stakeholders determine things such as profitability, liquidity, operational efficiency, market value, debt coverage, solvency, and where a company stands in an industry as compared to its competitors. (For example, the quick ratio reflects a company's ability to meet its short-term obligations. If the industry average quick ratio is 1.5 and Company A has a ratio of 2.5, then it is significantly more secure financially than its peers – as the value of its liquid assets relative to the amount of its short-term debt is nearly twice as much as that of its peers.)



22. As a financial analyst, what factors do you continually monitor and analyze?

It's important for financial analysts to keep data up-to-date and easily accessible in order to track several key factors, including the following:

Risk exposure and current working capital
- Opportunities to increase efficiency in business operations
- Optimal capital structure
- Model whether current business decisions may alter the key value drivers for the business

- Examine what products and what customers are key determinants of profit margins
- Potential of current decisions to significantly impact stock price

In answering this question, a sharp applicant will not only note most or all of the preceding points, but also note the need to regularly review data or situations they should be monitoring closely, as the key factors for a particular business will likely change over time.

23. What software programs do you use to prepare reports and presentations (illustrated technical graphs, charts, or spreadsheets)?

Excel is still a mainstay of financial analyst presentations; however, many additional software programs have made it easier for financial analysts to prepare more vibrant, colorful presentations that help to present data more clearly. Among the most popular software programs to help with creating high-impact reports and presentations are Tableau, Power BI, and Limelight.

An applicant's answer to this question will clue you in as to what programs they're familiar with, trained in, or fluent with – and may also indicate how aware they are of how rapidly software is improving and the need to be continually learning new programs. Part of a good answer to this question may also include expressing the applicant's willingness to use any program that the company may prefer and noting their ability to quickly learn and become fluent with new software.