

PEVC

IB preparation

This document compiles 30 of the most commonly asked technical interview questions for investment banking and private equity recruiting, covering the core areas every candidate should be able to speak to confidently. These include questions regarding Accounting, Enterprise & Equity Value, Valuation, Discounted Cash Flow Analysis, Merger Models, and LBO Models.

The questions are selected and prioritized based on frequency in real interviews, it is not an exhaustive list of every technical question you might encounter, but rather a foundation of the questions that come up most often and that interviewers assume you already know cold. Mastering these will cover the majority of technical ground in a first-round or even superday IB/PE interview.

Each question is paired with a clear, structured answer written to be understood and internalised, not memorized word-for-word. Interviewers can tell the difference between a candidate who understands the underlying logic and one who is reciting a script, and follow-up questions will expose the latter quickly. Use these answers as a framework to build your own understanding, and be ready to explain the reasoning behind each answer, not just the conclusion.

Accounting

1. Walk me through the 3 financial statements.
2. How do the 3 statements link together?
3. Walk me through how Depreciation going up by \$10 would affect the statements.
4. If Depreciation is a non-cash expense, why does it affect the cash balance?
5. What is Working Capital? How is it used?
6. What's the difference between cash-based and accrual accounting?

Example answers

1. The Income Statement shows revenue and expenses down to Net Income. The Balance Sheet shows Assets (what the company owns) versus Liabilities and Shareholders' Equity (how it's financed). Assets always equal Liabilities plus Equity. The Cash Flow Statement starts with Net Income, adds back non-cash items and working capital changes, then shows investing and financing activity to arrive at the net change in cash.
2. Net Income flows from the Income Statement into Retained Earnings on the Balance Sheet and into the top of the Cash Flow Statement. Balance Sheet changes (AR, inventory, payables, etc.) show up as working capital adjustments on the Cash Flow Statement. Investing and financing activities affect PP&E, debt, and equity. Cash and Shareholders' Equity act as the "plugs" that keep the Balance Sheet balanced, with the ending cash balance flowing from the bottom of the Cash Flow Statement.
3. (Assuming 40% tax rate)
Income Statement: Operating Income drops \$10, Net Income falls \$6.
Cash Flow Statement: Net Income is down \$6, but you add back the \$10 non-cash depreciation, so Cash Flow from Operations rises \$4.
Balance Sheet: PP&E falls \$10, cash rises \$4, Assets down \$6 net. Equity is also down \$6 (from lower Net Income), so both sides balance.
4. Because it's tax-deductible. Since taxes are a real cash outflow, a higher depreciation charge lowers taxable income and therefore lowers the actual cash tax paid. That's the mechanism by which a "non-cash" item still changes cash.
5. Working Capital = Current Assets – Current Liabilities. It measures whether a company can cover near-term obligations with near-term assets. In modeling, bankers more often use Operating Working Capital = (Current Assets – Cash) – (Current Liabilities – Debt), which strips out financing-related items so you're only looking at the operating cycle.
6. Cash-based accounting records revenue/expenses only when cash actually changes hands. Accrual accounting records revenue when it's earned (e.g., once a customer has committed) and expenses when incurred, regardless of when cash moves. Nearly all sizable companies use accrual accounting.

Accounting, Advanced

7. What are deferred tax assets/liabilities and how do they arise?
8. A company has had positive EBITDA for the past 10 years, but it recently went bankrupt. How could this happen?

Example answers

7. They arise from timing differences between what a company recognizes for book (GAAP) purposes versus cash tax purposes. A Deferred Tax Liability means you've booked a tax expense you haven't yet paid in cash (you'll owe it later). A Deferred Tax Asset is the reverse, you've paid cash tax you haven't yet expensed on the books. These commonly arise from asset write-ups/write-downs in M&A. A write-up creates a DTL, a write-down creates a DTA.
8. EBITDA ignores several things that can sink a company: heavy CapEx that isn't reflected in EBITDA, high interest expense it can no longer service, a wall of debt maturities it can't refinance in a tight credit market, or large one-time charges (litigation, etc.) severe enough to wipe out liquidity.

Enterprise / Equity Value

9. Why do we look at both Enterprise Value and Equity Value?
10. What's the formula for Enterprise Value?
11. How do you calculate fully diluted shares (Treasury Stock Method)?
12. Why do you subtract cash in the formula for Enterprise Value? Is that always accurate?

Example answers

- 9 Equity Value is what the public sees (share price $\times$ share count), the value available only to shareholders. Enterprise Value represents the value of the whole business available to *all* capital providers (debt and equity), which is what an acquirer effectively pays for.
- 10 $EV = \text{Equity Value} + \text{Debt} + \text{Preferred Stock} + \text{Noncontrolling Interest} - \text{Cash}$. (A simplified version, a fuller formula also nets out things like NOLs, investments, and capital leases.)
- 11 Start with basic shares outstanding. For any in-the-money options, assume they're exercised (adding shares), but also assume the company uses the exercise proceeds to buy back shares at the current price, wherer the net new shares are the dilutive effect. Out-of-the-money options add no dilution.
- 12 Cash is non-operating and, in an acquisition, effectively comes back to the buyer, reducing the real cost of the deal. Technically you should subtract only *excess* cash (above what the business needs to operate), but in practice most models subtract the full cash balance for simplicity.

Valuation

- 13 What are the 3 major valuation methodologies?
- 14 Rank the 3 valuation methodologies from highest to lowest expected value.
- 15 When would you not use a DCF in a Valuation?
- 16 Would an LBO or DCF give a higher valuation?
- 17 How do you value a private company?

Example answers

13. Comparable Companies (public trading multiples), Precedent Transactions (M&A multiples), and Discounted Cash Flow analysis.
14. There's no fixed ranking. Precedent Transactions tend to run higher than Comparable Companies because of the control premium paid in acquisitions. DCF is the most variable of the three, it can land above or below the other two depending entirely on your assumptions.
15. When cash flows are too unpredictable to forecast reasonably (early-stage or pre-revenue companies), or when debt/working capital play a fundamentally different role in the business (banks and other financial institutions, where debt is a raw material rather than a financing choice).
16. Usually the DCF, because it captures value from both the interim cash flows *and* the terminal value. An LBO only captures value from the exit (terminal value), you don't get credit for cash generated along the way, since it's typically used to pay down debt.
17. Same three methodologies, with adjustments:. Apply a discount (often 10-15%+) to public comps to account for illiquidity; skip premium and future-share-price analyses since there's no public share price; express value as Enterprise Value rather than a per-share price; and estimate WACC off public comps since there's no market cap or beta to work with directly.

DCF

18. Walk me through a DCF.
19. How do you calculate WACC?
20. How do you calculate the Cost of Equity?
21. How do you calculate the Terminal Value?
22. Why would you use Gordon Growth rather than the Multiples Method to calculate Terminal Value?

Example answers

18. Project the company's unlevered free cash flows for 5-10 years based on revenue, margin, and working capital assumptions. Discount those cash flows to present value using WACC. Separately calculate a Terminal Value (via an exit multiple or the Gordon Growth perpetuity formula) and discount that back too. Sum the two present values to get Enterprise Value.
19.
$$WACC = (\text{Cost of Equity} \times \% \text{ Equity}) + (\text{Cost of Debt} \times \% \text{ Debt} \times (1 - \text{Tax Rate}))$$
, weighted by each component's share of the capital structure.
20. Using CAPM:
$$\text{Cost of Equity} = \text{Risk-Free Rate} + \text{Beta} \times \text{Equity Risk Premium}$$
. Beta is typically derived by un-levering betas from comparable companies, taking the median, then re-levering it to your target company's own capital structure.
21. Two methods: the Multiples Method (apply an exit EV/EBITDA multiple, typically from comps, to your final projected year) or the Gordon Growth Method (
$$\text{Terminal Value} = \text{Final Year FCF} \times (1 + g) / (\text{Discount Rate} - g)$$
), assuming cash flows grow at a constant rate forever.
22. In practice, it shifts between banks. In the U.S, they more often default to the Multiples Method since exit multiples are grounded in observable comp data, while a perpetual growth rate is more of a guess. Gordon Growth becomes more attractive when there aren't good comparables, or when you expect multiples to shift materially over the long run (e.g., in a cyclical industry).

Merger Model

23. Walk me through a basic merger model.
24. What is the rule of thumb for assessing whether an M&A deal will be accretive or dilutive?
25. What are the complete effects of an acquisition?
26. Why do Goodwill & Other Intangibles get created in an acquisition?

Example answers

23. Make assumptions on purchase price and how it's financed (cash, stock, debt, or a mix). Project standalone income statements for buyer and seller. Combine them, adjusting for lost interest income on cash used, added interest expense on new debt, and new shares issued, then apply the buyer's tax rate and divide by the new combined share count to get pro forma EPS. Compare that to the buyer's standalone EPS to see if the deal is accretive or dilutive.
24. In an all-stock deal: if the buyer's P/E is higher than the seller's, the deal is accretive; if lower, it's dilutive. Intuitively, if you're paying less for the seller's earnings than the market pays for your own, you come out ahead. This shortcut only works for all-stock deals. With cash or debt financing, you have to actually run the interest expense math.
25. (1) Lost interest income on cash used to fund the deal, (2) new interest expense on any acquisition debt, (3) new shares issued if paying with stock, (4) the seller's financials get folded into the buyer's combined statements, and (5) Goodwill and Other Intangibles get created on the balance sheet.
26. They represent the premium paid above the seller's net identifiable assets (book value), value attributable to things like customer relationships, brand, and IP that don't show up as traditional balance sheet assets. It's calculated as Equity Purchase Price minus the seller's book value (with further adjustments for asset write-ups/downs and deferred taxes).

LBO Model

27. Walk me through a basic LBO model.
28. Why would you use leverage when buying a company?
29. What is an "ideal" candidate for an LBO?
30. How could a private equity firm boost its return in an LBO?

Example answers

27. Assume a purchase price, debt/equity financing mix, and interest rate. Build a Sources & Uses table to determine how much equity the sponsor needs to contribute. Adjust the target's balance sheet for the new debt and equity (wiping out old equity, plugging with Goodwill). Project the income statement, balance sheet, and cash flow statement forward, using excess cash flow to pay down debt each year. At exit (typically year 3-5), apply an exit multiple to EBITDA, pay off remaining debt, and calculate the return (IRR/MOIC) on the sponsor's original equity.
28. Debt isn't the sponsor's own money, so using more of it (relative to equity) magnifies returns on the equity actually invested, earning the same dollar return on a smaller equity check produces a higher IRR. It also frees up capital for the firm to pursue other deals.
29. A business with stable, predictable cash flows, low operating risk, limited ongoing CapEx needs, room to cut costs and improve margins, a strong management team, and enough hard assets to serve as debt collateral. Stable cash flow is the single most important factor, since it determines how much debt the company can safely service.
30. Lower the entry purchase price; raise the exit multiple/price; use more leverage; grow the company faster (organically or via add-on acquisitions); or improve margins by cutting costs. These are the theoretical levers in the model. In practice, most are hard to actually execute.

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