

Series 79 Practice Test

1. A research analyst is publishing a research report of Upside Industries and would like to confirm the accuracy of portions of its contents with them prior to making it final. Which of the following describes guidelines they must follow in doing so?

- I. The analyst must send a draft of the report to their own legal department at the same time as they are sending the report to Upside for their approval
 - II. If new information received from Upside provides for a change in the report's rating, the analyst is required to supply an explanation for such a change in writing to their legal department
 - III. It is allowable to include the report's general summary section in making a submission to Upside for information approval
 - IV. When sending portions to Upside for approval, any information regarding rating must be excluded in the submission
- a. II and IV
 - b. I and II
 - c. III and IV
 - d. I, II, III, and IV

2. All of the following would be categorized on an income statement as an operating expense EXCEPT...

- a. Labor costs
- b. Cost of goods sold
- c. Insurance costs
- d. Interest charges

3. Which of the following forms must be submitted annually to the SEC by the company, is much more detailed than their annual report, and contains, among other things, company historical and organizational information?

- a. Form 6-K
- b. Form 8-K
- c. Form 10-K
- d. Form 12-K

4. Which of the following ratios is defined as...

Cash equivalents + short-term investments + accounts receivable / current liabilities

- a. Cash ratio
- b. Quick ratio
- c. Debt-to-equity
- d. Current ratio

5. With exceptions, a company is generally required to file their preliminary proxy statement with the SEC at least ___ days before the company shareholders are given access to it.

- a. 10
- b. 28
- c. 12
- d. 14

6. All of the following are true of a company's balance sheet EXCEPT...

- a. Utilized in an analysis to determine whether the company is in a position of surplus or deficit
- b. Consists of two sections: current assets and current liabilities
- c. Offers a financial summary of the company's position at a specific point in time
- d. Includes stockholder's equity

7. In determining the most accurate new offering price, which of the following types of information must be gathered and analyzed?

- I. Competitor company comparisons
 - II. Overall indications regarding market climate and direction
 - III. Sector trends
 - IV. Publicly disseminated quarterly and annual reports for the company
- a. II, III, and IV
 - b. I, II, III, and IV
 - c. I and IV
 - d. I and III

8. Common stock + retained earnings - treasury stock is defined as...

- a. Unearned revenues
- b. Current assets
- c. Stockholder's equity
- d. Intangible assets

9. Which of the following statements is NOT true regarding a beneficial owner?

- a. Company shares are owned by one individual only for the benefit of another individual(s)
- b. The interest this owner may have which allows them to profit from transactions involving these shares is called pecuniary
- c. An example of a beneficial owner is a pension plan
- d. They will be defined as an "insider" if the amount they own exceeds 10 percent of the company's outstanding shares and accordingly will have restrictions imposed upon them regarding the disposition of those shares

10. Which of the following is made up of three sections: operations, investing, and financing?

- a. Balance sheet
- b. Income statement
- c. Cash flow statement
- d. Profit and loss statement

11. FINRA (Financial Industry Regulatory Authority) members must seek approval by application for which of the following alterations made to their ownership structure?

- I. Merger with any other firm
 - II. Acquisition by any other firm
 - III. Any significant change that may affect their business operations
 - IV. An individual or entity moving to possess at least 25% of the firm's equity
- a. I, II, and III
 - b. I and IV
 - c. I and II
 - d. III and IV

12. Specific regulations provide a framework for the borrowing of money between a firm's registered person and a customer. Which of the following describes a circumstance in which that type of borrowing could occur?

- a. If the customer is a close and immediate family member
- b. If the customer is registered with a firm different from that of the member firm and registered person
- c. If the customer is a financial institution
- d. If the primary relationship between the two is that of a broker-customer

13. Which of the following describes a scenario(s) when a duty of trust did NOT exist per the Securities Exchange Act (SEA) Rule 10b5-2?

- I. An individual with material, nonpublic information shares that information with someone who they have a regular and recurring business relationship with, but with whom they have not previously shared such confidential information before
 - II. An individual with material, nonpublic information has an established relationship with another individual wherein they have previously shared such information with them on a regular basis
 - III. An individual with material, nonpublic information shares that information with their brother with whom they have a regular and communicative relationship
 - IV. An individual receiving material, nonpublic information explicitly agrees to not share said information
- a. I and III
 - b. I only
 - c. II only
 - d. III and IV

14. Which of the following is NOT true regarding the National Association of Securities Dealers' (NASD) regulatory policies on the recording of conversations?

- a. A process for reviewing recordings should be established based on firm-specific factors such as its size and types of business conducted.
- b. Tape recordings of conversations must be retained for at least three years.
- c. Phone conversations between registered employees and existing customers must be recorded
- d. Phone conversations with potential customers are not required to be recorded

15. In an effort to measure company JHK's overall profitability, calculate their EPS (earnings per share) utilizing the given information below.

Company JHK:	
Net income:	\$2,200,434
Preferred dividend:	\$250,000
2014	
Preferred stock:	\$4,422,000
Common stock (par value \$21):	\$2,610,000
2015	
Preferred stock:	\$4,422,000
Common stock (par value \$21):	\$2,610,000

- a. \$31.39
- b. \$15.69
- c. \$9.26
- d. \$74.73

16. Which of the following is not a role within a firm that a limited principal may be appointed to?

- I. Government securities
 - II. Registered options and security futures
 - III. Direct participation programs
 - IV. Trading floor supervisor
- a. II and IV
 - b. I, II, and III
 - c. IV only
 - d. I and II

17. All of the following are true regarding registered NASD (National Association of Securities Dealers) members who are called into active military duty EXCEPT...

- a. Re-registration will not be necessary upon their return to work
- b. Until returning to active status they will be exempt from any continuing education requirements
- c. They are entitled to receive all compensation related to exercised transactions that occur while they are on inactive status except commissions
- d. NASD membership will be temporarily placed on inactive status

18. Which of the following is/are TRUE regarding who may be considered an investment banking representative?

- I. Executive level administrative assistant
 - II. Sales staff training personnel
 - III. Secretary of the firm
 - IV. Trading floor supervisor
- a. II and IV
 - b. I, II, III, and IV
 - c. IV only
 - d. I and II

19. Member firms are required by the regulatory policies of the National Association of Securities Dealers (NASD) to perform internal inspections of their business at least every year. Which of the following are point(s) of inspection they must address?

- I. Ensure that there is proper supervision overall customer accounts
 - II. Confirmation of the procedures for customer funds to be safeguarded
 - III. Confirmation that the process utilized to transmit funds between customers and other third parties is appropriate and secure
 - IV. Review of the procedures for the maintenance of the firm's books and records
- a. III only
 - b. I, II, III, and IV
 - c. II and III
 - d. I, III, and IV

20. An analyst would like to measure inventory turnover. Which of the following formulas can be utilized to do that?

- I. $\frac{\text{sales}}{\text{average accounts payable}}$
 - II. $\frac{\text{sales}}{\text{inventory}}$
 - III. $\frac{\text{cost of goods sold}}{\text{average inventory}}$
 - IV. $\frac{\text{net credit sales}}{\text{average inventory}}$
- a. II and III
 - b. III only
 - c. III and IV
 - d. II only

21. The number of Office Supervisory Jurisdiction (OSJ) designations within a given office is determined by all of the following except:

- a. The degree of complexity regarding the investment activities conducted in that office
- b. The office's proximity to other offices of the firm
- c. The number of registered representatives that are participating in investment activities at that office
- d. The number of years registered representatives have been at the given office

22. Which of the following are TRUE of the process for an applicant requesting a review of their rejected application for FINRA (Financial Industry Regulatory Authority) membership?

- I. FINRA, within 10 days, will forward the associated review documentation to the National Adjudicatory Council
 - II. Review hearing will be recorded
 - III. Applicant must submit a written request for review within 60 days
 - IV. Rejected application review will be conducted by the National Adjudicatory Council
- a. I and II
 - b. II and III
 - c. I, III and IV
 - d. IV only

Answer Key and Explanations

1. A: A research analyst who is publishing a research report of Upside Industries and who would like to confirm the accuracy of portions of its contents with the company prior to making the report final should follow certain guidelines in doing so. First, if Upside were to provide NEW information in response to the approval request that necessitated a rating change within the report, the analyst would be required to supply an explanation for such a change in writing to their legal department. Second, in sending portions to Upside for approval, any information regarding rating must be excluded in the submission. Third, the analyst must send a draft of the report to their own legal department BEFORE sending the report to Upside for their approval, not simultaneously. Last, it is NOT allowable to include the report's general summary section in making a submission to Upside for information.

2. D: A company's income statement reports both their operating and non-operating activities. Operating activities are those associated with normal business operations. Examples are labor costs, cost of goods sold, and insurance costs. Non-operating expenses are those that are NOT associated with normal business operations. One example is an interest charge.

3. C: Form 10-K must be submitted annually to the SEC by the company, is much more detailed than their annual report, and contains (among other things) company historical and organizational information. Form 6-K is utilized for foreign private issuers of securities and allows for transparency by requiring them to report widely any information reported to their own local securities regulators. Form 8-K is utilized by a company to report specifically unscheduled changes within the company that would be of material importance to either the company's shareholders or the SEC.

4. B: The quick ratio is a liquidity ratio, also referred to as the "acid test ratio," that provides for a more conservative analysis and is defined as: $\text{cash equivalents} + \text{short-term investments} + \text{accounts receivable} / \text{current liabilities}$. The cash ratio is an even more conservative liquidity ratio and is defined as: $\text{cash} + \text{equivalents} + \text{invested funds} / \text{current liabilities}$. The current ratio is the least conservative of the liquidity ratios and is defined as: $\text{current assets} / \text{current liabilities}$. The debt-to-equity ratio provides information regarding a company's leverage position and is defined as: $\text{company liabilities} / \text{shareholders' equity}$.

5. A: A company is generally required to file their preliminary proxy statement with the SEC at least 10 days before the company shareholders are given access to it. Exceptions to this requirement include but are not limited to having the proxy detailing ONLY information regarding an issued shares increase or the approval of an executive compensation package.

6. B: A company's balance sheet can be utilized in an analysis to determine whether the company is in a position of surplus or deficit and offers a financial summary of the company's position at a specific point in time. It however consists of three sections: assets (current, depreciable, and intangible), liabilities (current and long-term), and stockholder's equity.

7. B: In pricing a new offering, all of the above types of information should and must be gathered and analyzed. The company's competitors should be researched and utilized in a comparative analysis. The company's quarterly and annual reports should be reviewed, and analysis of the company's sector, as well as the climate and direction for the overall market, should be strongly considered.

8. C: Common stock + retained earnings - minus treasury stock is defined as stockholder's equity. Unearned revenues are considered to be a current liability. Current assets are cash, accounts receivable, prepaid items, and inventory, and intangible assets include items such as good will and trade names.

9. D: A beneficial owner who owns an amount of shares that exceeds 10 percent of the company's outstanding shares is NOT considered an insider for the purposes of having restrictions imposed upon them regarding the disposition of these shares. A beneficial owner owns company shares only for the benefit of another individual(s). They may have a pecuniary interest in these shares which would allow them to potentially profit from transactions involving the shares, and an example of a beneficial owner would be a pension plan.

10. C: The cash flow statement is divided into three sections: operations, investing, and financing. It is designed to aid in the analysis of a company's operational performance and efficiency, and utilizes information from both the company's income statement and balance sheet.

11. D: FINRA (Financial Industry Regulatory Authority) members must seek approval by application for any significant change that may affect their business operations, and in the event that an individual or entity moves to possess at least 25 percent of the firm's equity. A merger requires approval only if both firms are not members of the New York Stock Exchange (NYSE), and a firm's acquisition by another firm requires approval only if the acquiring firm is not a member of the NYSE.

12. A: The borrowing of money between a firm's registered person and a customer has specific requirements that must be met in order for such a transaction to occur. Of the circumstances provided, this sort of borrowing could occur given the customer was a close and immediate family member of the registered person. Beyond this, regulations require that both the registered person and customer must be registered with the same member firm, and further, the customer can be a financial institution, but ONLY one that has lending as part of their normal business activities. Also, the PRIMARY relationship between the customer and registered person must be that of an outside business one, not simply a broker-customer relationship.

13. B: Per the Securities Exchange Act (SEA) Rule 10b5-2, a duty of trust does NOT exist where material, nonpublic information is shared with an individual with whom the sharer of the confidential information may have a recurring business relationship, but with whom there is NOT an established practice of sharing this sort of private information previously. A duty of trust DOES exist when an individual with material, nonpublic information has an established relationship with another individual wherein they have previously shared such information with them on a regular basis; when an individual with material, nonpublic information shares that information with their brother with whom they have a regular and communicative relationship; and when an individual receiving material, nonpublic information explicitly agrees to not share said information.

14. D: The National Association of Securities Dealers' (NASD) regulatory policies on the recording of conversations require that conversations between registered employees and BOTH existing and potential customers MUST be recorded. Additionally, a process for reviewing recordings should be established based on firm-specific factors such as its size and types of business conducted, and tape recordings of these conversations must be retained for at least three years.

15. B: EPS (earnings per share) ratio = net income - preferred stock dividends / average shares outstanding

$$\begin{aligned}\text{EPS} &= \frac{\$2,200,434 - \$250,000}{\left(\frac{\$2,610,000}{\$21} + \frac{\$2,610,000}{\$21} \right)} \\ &= \frac{\$1,950,434}{\frac{124,286 + 124,286}{2}} \\ &= \frac{\$1,950,434}{\frac{248,572}{2}} \\ &= \frac{\$1,950,434}{124,286} \\ &= \$15.69\end{aligned}$$

16. B: Within a firm, a limited principal may be appointed to head up government securities, registered options and security futures, and direct participation programs.

17. C: Registered NASD (National Association of Securities Dealers) members who are called into active military duty are entitled to receive all compensation related to exercised transactions that occur while they're on inactive status, INCLUDING commissions. Additionally, their membership will be temporarily placed on inactive status, while inactive they will be exempt from any continuing education requirements, and upon returning to work, re-registration will not be necessary.

18. A: A "representative" for these purposes must be employed in the investment banking business performing job duties that are non-administrative in nature. Sales staff training personnel and the trading floor supervisor would qualify here as acting in roles that would be deemed those of an investment banking representative. Both the executive level administrative assistant and secretary would be viewed as having roles that are solely administrative and therefore would NOT meet the definition of representative. Accordingly, they would be exempt from any registration requirements.

19. B: Member firms are required by the regulatory policies of the National Association of Securities Dealers (NASD) to perform internal inspections of their business at least once every year. Point(s) of inspection they must address include ensuring that there is proper supervision overall customer accounts, confirming the procedures for customer funds being safeguarded, confirming that the process utilized to transmit funds between customers and other third parties is appropriate and secure, and reviewing the procedures for the maintenance of the firm's books and records.

20. A: Inventory turnover provides a measure of a company's inventory and how many times it is sold and replaced over time. Of the above choices, two can be utilized by this analyst to measure inventory turnover: 1) sales / inventory, and 2) cost of goods sold / average inventory.

21. D: The number of Office Supervisory Jurisdiction (OSJ) designations within a given office will be determined by the degree of complexity regarding the investment activities conducted in that office, the office's proximity to other offices of the firm, and the amount of registered representatives that are participating in investment activities at that office.

22. A: Regarding the review process for a rejected application for FINRA (Financial Industry Regulatory Authority) membership, FINRA will forward the associated review documentation to the National Adjudicatory Council within 10 days, and the resulting review hearing will be recorded. An applicant however requesting a review of their rejected application for FINRA membership must do so within 25 days, NOT 10, and the rejected application review will be conducted by a subcommittee appointed by the National Adjudicatory Council (NAC), NOT the actual NAC. This subcommittee is required to have at least two current or former council members.

23. C: Given Financial Industry Regulatory Authority (FINRA) regulations, a member would NOT be obligated to report just ANY written customer complaint regarding a registered person. There are SPECIFIC instances that require a member to report, within 30 days, situations of potential wrongdoing as they become aware of them. These include an associate of the firm being denied membership to the National Association of Securities Dealers (NASD), an associate of the firm pleading guilty to a securities related felony, and an associate of the firm being a defendant in a foreign court proceeding regarding a securities regulation violation.

24. D: $\text{BITDA} = \text{net income} + \text{income tax} + \text{depreciation} + \text{amortization} - \text{interest income}$

$$\begin{aligned}\text{EBITDA} &= (\$255,007 + \$16,990 + \$41,556 + \$20,776) - \$9,202 \\ &= \$334,329 - \$9,202 \\ &= \$325,127\end{aligned}$$

25. D: There are specific requirements for Financial Industry Regulatory Authority (FINRA) firm membership applications. These include a firm organizational chart, a list of all securities the firm intends to sell, an original copy of a fingerprint card for each associated individual, and the description of the financial controls to be used by the applicant.

26. C: A limited representative may be assigned responsibilities related to only specific activities within a firm. Areas that are allowable are options, equity trading, and corporate securities. They may NOT be assigned responsibilities related to supervising the sale of securities.

27. A: A Dividend Reinvestment Plan (DRIP) provides for the opportunity to purchase treasury stock shares utilizing the proceeds of dividend payouts. The shares are priced at a small discount. Tax incentives however are NOT offered for participation in this plan.

28. C: When preparing for participation in a transaction, a company is NOT required to disclose the timing, including specific dates for the disbursement of funds for that transaction. However, they ARE required to provide details regarding a "plan B" source of funding in the event that their planned and primary source of funding fails, an itemized statement of all expenses expected to be incurred from the transaction, and if funds are being loaned, a summary detail of the loan agreements is required regarding those funds.

29. C: The pre-filing period is the time that starts with finalizing the underwriting agreement and ends with the Securities & Exchange Commission (SEC) registration filing. Disclosures CANNOT include valuations or projections. The content of disclosures is limited to what is traditionally