

FREE SERIES 24 PRACTICE EXAM

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1. Which two of the following statements are correct regarding an account opened under the Uniform Gift to Minors Act?
 - I. There may be only one custodian per minor
 - II. There is no limit to the number of custodians for a single minor
 - III. A custodian may open a margin account
 - IV. A custodian may not open a margin account
 - a. I and III
 - b. I and IV
 - c. II and III
 - d. II and IV

2. A member firm may charge its customers a reasonable amount that does not discriminate between customers for which of the following services?
 - I. Safekeeping of securities
 - II. Collection of dividends and interest
 - III. Forwarding proxy material from corporations
 - IV. Exchange or transfer of securities
 - a. I, II, III and IV
 - b. I, II, and IV only
 - c. II and IV only
 - d. None of the above

3. Under which of the following circumstances would a customer be considered "long" a security?
 - I. A customer sells stock held in a vault at a bank
 - II. A customer owns a bond convertible into the number of shares of stock being sold
 - III. A customer owns warrants to acquire the number of shares being sold
 - IV. A customer has exercised an option to acquire the number of shares being sold
 - a. I only
 - b. I and IV only
 - c. II, III, and IV only
 - d. I, II, III, and IV

4. Which of the following accounts may be opened without the signature of the customer?
- Cash account
 - Options account
 - Margin account
 - None of the above
5. A registered representative need not obtain written authorization to exercise discretion as to the timing of a transaction if the customer specifies:
- The name of the stock
 - Whether the stock is to be bought or sold
 - The number of shares to be bought or sold
- I only
 - I and III only
 - II and III only
 - I, II, and III
6. An individual purchases \$1,500 of stock in a new margin account on 50% margin. The minimum required deposit would be:
- \$2,000
 - \$1,500
 - \$750
 - \$375
7. If a customer dies, which of the following actions should be taken?
- The account should be liquidated and the assets frozen
 - Outstanding orders should be cancelled
 - Assets should be transferred to a surviving spouse
 - Nothing should be done in the absence of instructions from an executor
8. SMA in a restricted margin account is increased by all of the following EXCEPT:
- Deposit of fully-paid stock
 - Cash dividends
 - Stock dividends
 - Increase in market value
9. An office of supervisory jurisdiction is:
- A branch office of a member firm of FINRA
 - An office that is responsible for the activities of registered representatives and associated persons
 - A district office of FINRA charged with enforcing the Rules of Fair Practice
 - The District Committee

10. Under the Uniform Gifts to Minors Act, a gift given to a minor may be revoked:
- If the minor dies prior to reaching the age of majority
 - If the custodian dies prior to the minor's reaching the age of majority
 - At any time prior to the minor reaching the age of majority
 - Under no circumstances
11. An employee of a FINRA member firm wishes to open an account at another FINRA member firm. The firm opening the account:
- Need not notify the employee's firm that the account is being opened
 - Need not notify the employee's firm that the account is being opened if it is a cash account, but must send notice if it is a margin account
 - Is required to give notice to the employee's member firm and to inform the employee that such notice will be given
 - Is required to give notice to the employee's member firm, but need not inform the employee that such notice will be given
12. How many times can you rollover an IRA in one year?
- Once
 - Twice
 - As many times as you need to
 - Never, must be transferred directly
13. A husband earns \$105,000 and has a KEOGH at work. His wife earns \$85,000 at her job, and also contributes to a 401k at her place of employment. They contribute the maximum amount to their traditional IRAs this year. How much of their traditional IRA contributions will be tax deductible?
- \$0
 - \$2,000
 - \$2,250
 - \$4,000
14. If you sell a stock short on the ex-dividend date, which is entitled to the dividend?
- Borrower
 - Lender
 - Buyer
 - Seller
15. Client A has securities in a margin account with a market value of \$50,000. A \$20,000 debit balance, \$30,000 in equity. What is the amount of excess margin securities in the account?
- \$10,000
 - \$22,000
 - \$28,000
 - \$30,000

16. All of the following are generally acceptable gifts under the Uniform Gifts to Minors Act EXCEPT:
- Corporate bonds
 - Commodity futures contracts
 - Common stock
 - Annuity contracts
17. An account is opened for an employee of another FINRA member firm. Which of the following must be done?
- Notify the account's employer
 - Send duplicate confirmations and statements if required
 - Notify FINRA
- I and II
 - II and III
 - I and III
 - I, II and III
18. Which of the following sell orders must be marked short under SEC Rules?
- A long call is exercised when the long stock is sold
 - A customer exercises a warrant and sells the underlying common stock
 - Common stock is purchased and sold prior to the settlement date
 - A customer who is short against the box sells part of the long position
19. A member firm is requested to open an account by a partner of another member firm. Which of the following statements are correct?
- The account may be opened, but the partner may not engage in any transactions in securities recommended by his firm
 - The account may not be opened under any circumstances
 - The member firm is required to give notice to the other member firm
 - The member firm must send duplicate confirmations or statements to the other member firm if requested
- I
 - II
 - III
 - III and IV
20. May a gift under the Uniform Gifts to Minors Act be made to two or more minors jointly or severally?
- Yes, with no restrictions
 - No, only one minor per account
 - Only if the gift is made via probate of a will
 - Yes, but gifts of bearer securities are excluded

21. For regular way securities transactions that are cleared dealer to dealer, confirmations must be sent by each party:
- On trade date
 - On or before the first business day after trade date
 - On or before settlement date
 - On or before ten calendar days after trade date
22. If a customer fails to pay for stock in his cash account, and no extension is obtained, a broker/dealer must:
- Sell out the securities after five business days
 - Sell out the securities three days after the seventh business day
 - Carry the position until it is paid
 - Make arrangements to finance the position
23. Copies of written complaints under FINRA Rules must be kept by:
- The registered representative mentioned in the complaint
 - The Office of Supervisory Jurisdiction having control over the account
 - The branch office where the complaint was registered
 - A FINRA Principal in the office where the complaint was registered
24. When a custodian account is opened under the Uniform Gifts to Minors Act, the social security number which must be obtained is the:
- Minor's
 - Donor's
 - Custodian's
 - Legal Guardian's
25. Which of the following best describes a restricted margin account?
- An account with a net debit balance
 - An account from which no portion of the SMA balance may be withdrawn
 - An account for which no securities may be purchased
 - An account in which the equity is less than the initial margin requirement

ANSWERS & RATIONALES

1. **B** In opening an account for a minor, there can only be one custodian per minor. The custodian must act in a fiduciary capacity for the minor, and opening up a margin account would be considered excessively risky.
2. **B** Broker/dealers may not charge a fee for forwarding proxy materials to customers. They are allowed to charge fair fees for the safekeeping of securities, collection of interest and dividends, and for the exchange or transfer of securities.
3. **B** The term long refers to ownership. If a customer sells stock that is held in a vault at a bank, they must own the stock being sold. Simply owning a convertible bond or warrant does not mean the client owns the stock. When the customer exercises the option to acquire shares, they are said to be long those shares.
4. **A** When opening up an options or margin account it is required that you obtain the signature of the client. When opening up a cash account no signature is necessary.
5. **D** So long as the customer tells you the type, quantity and whether or not you are to buy or sell, you are automatically given discretion over timing. The transaction should be done that day however, it is not acceptable for you to hold the order and wait indefinitely. It is implied that you do that transaction today, and you do not need written discretionary authority since the customer told you type, quantity and whether to buy or sell the securities.
6. **B** Remember, if Reg T is 50%, that means that the customer must deposit 50% as collateral or 2K, whichever is greater, never to exceed the value of what is being purchased in a long account however.
7. **B** If a customer dies the first thing you do is to cancel open orders, next you would freeze assets in the account until necessary documents are obtained from the administrator, executor, or conservator of estate.
8. **C** SMA is created when the equity is in excess of Regulation T's requirement. A deposit of fully-paid, cash dividends, and an increase in market value would all increase SMA. Stock dividends do not affect the SMA balance.
9. **B** The OSJ is where you would find the registered principal who would be responsible for the all of the activities of the registered representative and associated persons. Members are required to establish, maintain and enforce written supervisory procedures over activities of all registered personnel. Other activities that may occur at an OSJ include order execution and market making, structuring of new issues, final approval of new accounts, review and approval of customer orders, advertising and sales literature. It is at the OSJ where you would find the written supervisory procedures of the member firm. Each OSJ must be subject to an annual review by the main office of the firm. The OSJ is

also responsible for preparing and delivering the annual firm element CE requirement to all registered representatives. At the OSJ you will find the file of all written customer complaints, along with what action was taken by the member to address the issue. This file must be maintained for 3 years. A record of all customer complaints must be filed electronically with FINRA quarterly.

10. **D** Gifts given to a minor in an UGMA or UTMA account are irrevocable.
11. **C** The executing firm is required to give notice to the employee's member firm, and duplicate confirmation will be required to be filed upon request.
12. **A** Rollovers are allowed one time a year. The rollover must be made within 60 days of the distribution to defer taxes.
13. **A** To determine the tax deductibility of traditional IRA contributions it is a two step test. First, active participation in an employer sponsored plan and next is the income level. If the income level is above that year's threshold and the person is an active participant in an employer sponsored plan, then the contributions are in after-tax dollars. That is the case with the question. The contributions are not tax deductible due to the active participation in an employer sponsored plan and the income levels.
14. **B** Ex-dividend means that the stock is without the dividend. So that if you were to short the stock that does not have the dividend attached to it, then the dividend would be payable to whomever you borrowed the stock from. When you short a stock, you are selling shares that you have borrowed. You borrow those shares from the lender.
15. **B** Excess margin securities the amount that is above the 140% of the debit balance that have been pledged to the bank as collateral for the loan. The debit is \$20,000 times 140% = \$28,000. The market value is currently \$50,000 - \$28,000 = \$22,000 in excess margin securities.
16. **B** Stocks, bonds and annuity contracts would all be considered acceptable gifts under the UGMA law. Commodity futures contracts would be too risky to be held in an UGMA account.
17. **A** The executing firm is required to notify the account's employer as well as send duplicate confirmations, if so requested by the employing member firm.
18. **D** To be short against the box is to sell shares you have borrowed, but in reality you actually own the shares, you just didn't want to have to cover using those shares. If a customer sells part of those shares, that order ticket must be marked short.
19. **D** The same rules apply here as would apply to any employee of a member firm. The executing firm is required to notify the employing firm and duplicate confirmations must be sent upon request.
20. **B** In an UGMA account there is only allowed to be one minor per account and one custodian per account.
21. **B** Confirmations must be sent out, at the latest, the business day after the trade date.

22. **A** FRB Regulation T allows for the customer to have T + 5 business days to settle a trade. After the fifth business day, the broker/dealer will sell the securities and freeze the account for 90 days, all subsequent transactions must be paid for in cash in advance.
23. **B** The OSJ is responsible for keeping file of all complaints and how the complaints were handled for three years.
24. **A** In order to open an UGMA account you must have the SSN of the minor. Any taxes owed are owed by the minor.
25. **D** A restricted account occurs anytime the equity falls below the Regulation T initial margin requirement. When a margin account is restricted, one half of all securities sold out of that account must go to pay down the debit balance.