



# FINRA-SERIES-7<sup>Q&As</sup>

FINRA General Securities Representative Examination (GS)

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### QUESTION 1

In the distribution of a new issue, a dealer acting as an underwriter is said to have a:

- A. firm market
- B. divided account
- C. free ride
- D. firm commitment

Correct Answer: D

firm commitment. The term underwriting means a guarantee to the issuing corporation. This is a firm commitment, unlike a best efforts offering where there is no guarantee.

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### QUESTION 2

Bubba buys a municipal bond at 102 and holds it ten years to maturity. For tax purposes, how is that premium treated?

- A. recorded as a long-term capital loss
- B. an ordinary loss taken as a deduction from taxable income
- C. amortized over the life of the bond resulting in no loss at maturity
- D. carried forward as a premium loss applied against profits realized on future municipal securities

Correct Answer: C

amortized over the life of the bond resulting in no loss at maturity. For tax purposes, premiums are amortized over the life of the bond. Some amount is taken each year.

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### QUESTION 3

Which of the following oil and gas programs does not directly involve drilling?

- A. exploratory
- B. developmental
- C. balanced
- D. income

Correct Answer: D

income. With an income program, the well is already producing. The risk is associated with the commodity price.

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**QUESTION 4**

Which of the following is normally the largest asset of a manufacturing company?

- A. sales
- B. inventory
- C. accounts receivable
- D. notes receivable

Correct Answer: B

inventory. A manufacturer will normally have more inventory than accounts receivable and notes receivable. Sales is not an asset category.

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**QUESTION 5**

Bubba has a cash account and fails to make full and prompt payment for a purchase. The broker liquidated the transaction. Two weeks later, Bubba places another buy order for 100 shares of XYZ. What does the broker do?

- A. refuses the order
- B. handles the order after obtaining a promise from Bubba to effect prompt settlement
- C. requires a 25% down payment before executing the order
- D. executes the order at its own risk

Correct Answer: A

refuses the order. Reg T requires that under these circumstances the account must be frozen for 90 days. Any trade prior to that, requires cash in advance.

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