FINRA SERIES 86 RESEARCH ANALYST PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. **In the early years of an asset's life, which reporting method generally leads to lower earnings?**

   A. Straight-line depreciation under GAAP

   B. Accelerated depreciation for tax purposes

   C. Cash basis reporting

   D. Modified accelerated cost recovery system

2. **What factor contributes to a foreign company having a higher EV/EBITDA compared to a U.S. company with similar financial metrics?**

   A. The foreign company has higher sales growth

   B. The U.S. company has higher sales growth

   C. The foreign company pays higher taxes

   D. The U.S. company pays higher taxes

3. **In the context of corporate financial reporting, the current ratio is a measure of:**

   A. The company's profitability over time

   B. The company's liquidity and ability to cover short-term obligations

   C. The company's long-term solvency

   D. The company's operational efficiency

4. **Which statement accurately describes the immediate effects of restructuring on net worth?**

   A. Net worth will remain constant

   B. Net worth will decrease significantly

   C. Net worth will increase marginally

   D. Net worth will increase only after all liabilities are settled

5. **In calculating terminal value, which component is adjusted based on market interest rates?**

   A. Discount rate

   B. Growth rate

   C. Debt levels

   D. Market shares

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6. If the total value of a firm is $155,683,690 and it has $25,000,000 of debt, what is the value of its equity?

A. $130,683,690

B. $100,000,000

C. $155,000,000

D. $25,000,000

7. What is the difference between systematic risk and unsystematic risk?

A. Systematic risk is specific to an industry; unsystematic risk affects all markets

B. Systematic risk affects the entire market; unsystematic risk is specific to a company or industry

C. Systematic risk is controllable; unsystematic risk is not

D. Both types of risk are identical

8. In a meeting with senior management of a widget maker, which metrics are most important to explore regarding production?

A. Supply lead times and production costs

B. Market share and sales forecasts

C. Capacity utilization and defect rates

D. Share buyback plans and executive compensation

9. What key element is covered in a company's 'industry analysis'?

A. The risks associated with potential investments

B. The projected growth and challenges of the industry

C. The history of financial performance

D. The effectiveness of management practices

10. How can macroeconomic indicators influence equity research?

A. They can create regulatory frameworks

B. They can affect market conditions and investor sentiment

C. They solely impact the supply chain

D. They determine corporate tax rates

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Answers

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1. B
2. D
3. B
4. B
5. A
6. A
7. B
8. C
9. B
10. B

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Explanations

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1. In the early years of an asset's life, which reporting method generally leads to lower earnings?

A. Straight-line depreciation under GAAP

B. Accelerated depreciation for tax purposes

C. Cash basis reporting

D. Modified accelerated cost recovery system

In the early years of an asset's life, the use of accelerated depreciation for tax purposes typically leads to lower reported earnings. This method allows a company to depreciate an asset more rapidly compared to straight-line depreciation, which spreads the asset's cost evenly over its useful life. Accelerated depreciation methods, such as double declining balance or sum-of-the-years-digits, result in higher depreciation expenses in the earlier years of an asset's life. This increased expense reduces taxable income in those years, thereby leading to lower earnings reported on the income statement. The benefit of this approach is primarily seen in tax savings, as companies pay less tax in the early years when they utilize increased depreciation expenses. However, since earnings are decreased due to the higher expense recognized, this accounting practice aligns with the question regarding which reporting method generally leads to lower earnings early on. Other options, such as straight-line depreciation and cash basis reporting, do not typically result in lower earnings in the same way. Straight-line depreciation spreads costs out evenly over time, and while cash basis reporting can affect how revenues and expenses are recognized, it generally does not reflect the depreciation impacts on earnings as accelerated methods do. Modified accelerated cost recovery system (MACRS) also provides for faster depreciation,

2. What factor contributes to a foreign company having a higher EV/EBITDA compared to a U.S. company with similar financial metrics?

A. The foreign company has higher sales growth

B. The U.S. company has higher sales growth

C. The foreign company pays higher taxes

D. The U.S. company pays higher taxes

A foreign company having a higher EV/EBITDA compared to a U.S. company with similar financial metrics can be attributed to various factors, including tax rates. In general, if the U.S. company pays higher taxes than the foreign company, this can lead to a lower net income and thus a lower valuation multiple, such as EV/EBITDA. Higher taxes reduce the amount of income available to shareholders and can influence investor perception of the company's profitability. As a result, if investors are more optimistic about the growth potential and earnings capacity of the foreign company—especially if it benefits from a more favorable tax environment—they may assign a higher EV/EBITDA multiple to that foreign company. This higher multiple reflects expectations of future growth and profitability, which is essential for pricing the company's equity. Therefore, differences in tax burdens can significantly affect valuation metrics, such as EV/EBITDA, leading to the observed discrepancy between companies in different tax jurisdictions.

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3. In the context of corporate financial reporting, the current ratio is a measure of:

A. The company's profitability over time

B. The company's liquidity and ability to cover short-term obligations

C. The company's long-term solvency

D. The company's operational efficiency

The current ratio is a financial metric used to assess a company's liquidity, specifically its ability to cover short-term obligations with its short-term assets. It is calculated by dividing current assets by current liabilities. A higher current ratio indicates that the company has a greater capacity to pay off its short-term debts, which is vital for maintaining operational stability and financial health. This ratio is commonly used by investors and creditors to evaluate a company's ability to meet its immediate financial obligations, making it a key indicator of liquidity. In contrast, the other options focus on different aspects of financial health. Profitability over time relates to metrics like net income or return on equity, which track earnings relative to revenues or investment. Long-term solvency pertains to a company's ability to meet long-term obligations, often evaluated through ratios like debt-to-equity. Operational efficiency addresses how well a company uses its resources to generate profits, typically measured with metrics like inventory turnover or operating margin. Each of these other measures plays a different role in assessing a company's overall financial well-being, while the current ratio is specifically concerned with immediate liquidity.

4. Which statement accurately describes the immediate effects of restructuring on net worth?

A. Net worth will remain constant

B. Net worth will decrease significantly

C. Net worth will increase marginally

D. Net worth will increase only after all liabilities are settled

The immediate effect of restructuring on net worth can often be a significant decrease, particularly due to associated costs such as severance payments, transaction fees, and potential loss of revenue during the restructuring process. When a company undergoes restructuring, it might incur substantial expenses related to legal and advisory services, as well as costs linked to laying off employees or closing down facilities. These costs can directly reduce the company's equity, which is reflected in net worth. Additionally, restructuring might lead to immediate write-downs of assets or other non-operational efficiencies as the company reevaluates its financial position and ceases operations that are not financially feasible. Therefore, the immediate impact of these factors is that net worth is likely to decline significantly rather than remain constant or increase, making the assertion that net worth will decrease significantly accurate in the context of immediate restructuring outcomes. Other options suggest that net worth might stay the same or increase marginally, which does not account for the typical costs and disruptions that restructuring entails. Conversely, indicating that net worth will only increase after all liabilities are settled overlooks the immediate financial repercussions of restructuring, which usually sees a decline rather than waiting for liabilities to be settled.

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5. In calculating terminal value, which component is adjusted based on market interest rates?

A. Discount rate

B. Growth rate

C. Debt levels

D. Market shares

The calculation of terminal value is an essential part of financial modeling as it estimates the value of an investment or a company beyond the explicit forecast period. The correct choice is the discount rate, which is crucial for calculating the present value of future cash flows associated with terminal value. The discount rate is typically influenced by market interest rates because it represents the required rate of return that investors expect from an investment. When market interest rates change, this can directly impact the cost of capital and, thus, the discount rate used in the valuation model. A higher discount rate indicates a higher risk premium that investors demand, while a lower discount rate may suggest a more favorable borrowing environment and lower perceived risks. In contrast, the growth rate, debt levels, and market shares are generally more stable and are influenced by company-specific factors or historical performance rather than directly linked to fluctuations in market interest rates. For example, while changes in interest rates may affect a company's ability to manage their debt, the actual debt levels used in terminal value calculations remain constant until adjusted for other reasons. Thus, adjusting the discount rate based on market interest rates is critical for accurately assessing the terminal value, making it the appropriate choice in this context.

6. If the total value of a firm is $155,683,690 and it has $25,000,000 of debt, what is the value of its equity?

A. $130,683,690

B. $100,000,000

C. $155,000,000

D. $25,000,000

To determine the value of a firm's equity, you can use the following relationship: Equity Value = Total Firm Value - Total Debt In this scenario, the total value of the firm is $155,683,690, and it has $25,000,000 of debt. By subtracting the debt from the total firm value, you arrive at: Equity Value = $155,683,690 - $25,000,000 Calculating this gives: Equity Value = $130,683,690 This indicates that the equity of the firm is valued at $130,683,690, which aligns with the choice provided. This calculation accurately reflects how the total value of the firm is allocated between equity and debt, providing a clear insight into the firm's financial structure. Understanding this is crucial for assessments of company valuation and for making informed investment decisions.

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7. What is the difference between systematic risk and unsystematic risk?

A. Systematic risk is specific to an industry; unsystematic risk affects all markets

B. Systematic risk affects the entire market; unsystematic risk is specific to a company or industry

C. Systematic risk is controllable; unsystematic risk is not

D. Both types of risk are identical

The distinction between systematic risk and unsystematic risk is fundamental in understanding risk management in finance. Systematic risk refers to the risk that affects the entire market or a broad range of assets and is often linked to macroeconomic factors such as interest rates, inflation, and economic downturns. Because it is inherent to the entire market, it cannot be mitigated through diversification – all investments will be impacted to some degree by these factors. Unsystematic risk, on the other hand, is specific to a particular company or industry, resulting from factors such as management decisions, product recalls, or competitive pressures. Unlike systematic risk, unsystematic risk can be reduced through diversification, as spreading investments across various sectors or companies can help mitigate the negative impact of an event that affects only a particular entity. The correct answer highlights the essence of these two types of risk, emphasizing that systematic risk is broad and affects the market as a whole, while unsystematic risk is localized and can be managed by investors through diversification strategies.

8. In a meeting with senior management of a widget maker, which metrics are most important to explore regarding production?

A. Supply lead times and production costs

B. Market share and sales forecasts

C. Capacity utilization and defect rates

D. Share buyback plans and executive compensation

Focusing on capacity utilization and defect rates is crucial when evaluating production metrics for a widget maker. Capacity utilization measures how much of the company's potential output is being used, which provides insight into whether the company can efficiently meet demand. High capacity utilization often indicates that production is running at optimal levels, while low utilization could suggest excess capacity or inefficiencies. Defect rates are another important metric, as they reflect the quality of the production process. High defect rates can lead to increased costs due to waste, rework, and potential reputational damage, which could ultimately influence profitability. Understanding these rates helps assess not only the current production efficiency but also the reliability and sustainability of supply to the market. These two metrics combined offer a comprehensive view of production efficiency and quality, both vital for the company's overall success and strategic planning. By analyzing these areas, management can identify potential areas for improvement, optimize processes, and enhance overall performance in production.

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9. What key element is covered in a company's 'industry analysis'?

A. The risks associated with potential investments

B. The projected growth and challenges of the industry

C. The history of financial performance

D. The effectiveness of management practices

The focus of an industry analysis is primarily on understanding the projected growth and challenges that the industry faces. This analysis entails evaluating various factors that could impact the industry's evolution, including market trends, competitive dynamics, regulatory influences, and economic conditions. By examining these elements, analysts can provide insights into the potential for growth, areas of opportunity, and obstacles that might hinder that growth within the industry. This understanding is critical for investors and stakeholders as it helps in making informed decisions regarding investments in companies operating within that industry. Recognizing future trends and potential challenges enables better strategic planning and positioning for companies in the market.

10. How can macroeconomic indicators influence equity research?

A. They can create regulatory frameworks

B. They can affect market conditions and investor sentiment

C. They solely impact the supply chain

D. They determine corporate tax rates

Macroeconomic indicators are crucial in shaping the broader economic environment, which directly impacts equity research. These indicators, such as GDP growth rates, unemployment figures, inflation rates, and interest rates, provide insights into the overall health of the economy. When equity researchers analyze companies, they often consider these macroeconomic factors as they can significantly influence market conditions and investor sentiment. For example, a strong economy typically leads to higher consumer spending, which can drive revenue growth for companies. Conversely, indicators suggesting an economic downturn might lead investors to become more cautious, which could decrease stock prices. Understanding how these macroeconomic indicators play a role can help analysts forecast potential changes in a company's performance and valuation, facilitating more informed investment decisions. The other options do not fully capture the role that macroeconomic indicators play. Regulatory frameworks and corporate tax rates may be influenced by economic conditions but are not directly shaped by macroeconomic indicators in the same way that market conditions and investor sentiment can be impacted. Additionally, while supply chain issues can be affected by economic factors, they are not the sole impact of macroeconomic indicators. Thus, the correct choice emphasizes the direct relationship between macroeconomic indicators and the financial markets as assessed through equity research.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://finraseries86researchanalyst.examzify.com

We wish you the very best on your exam journey. You've got this!

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