

LAIKIPIA



BFIN 321

UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

**THIRD YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF COMMERCE**

BFIN 321: BANKING LAW AND PRACTICE

STREAM:

TIME: 2 HRS

DAY: WEDNESDAY [2.30-4.30 P.M]

DATE: 17/04/2024

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

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Vision : A University for Valued Transformation of Society

Mission: To serve students and society through research, education, scholarship, training, innovation, outreach and consultancy



Laikipia University is ISO 9001:2015 and ISO/IEC 27001:2013 Certified



INSTRUCTIONS: Answer Question One (compulsory and any other TWO questions)

QUESTION ONE (30MARKS)

- (a) In this case law: the plaintiff drew bills of exchange on a motor company which were endorsed by the defendants, and accepted as payable on demand. In 1963, the motor company went into liquidation and subsequently, the bills of exchange were dishonored. The plaintiff brought an action against the defendant's for money drawn on the basis of the bills. The defendants denied liability and claimed that the plaintiff were money lenders and therefore did not qualify engaging in the business in the bills of exchange. The plaintiffs argued that, they were carrying out business therefore; they qualified in drawing the bills of exchange. Required: explain the legal issues in this case law. **(8 marks)**
- (b) In this case law: the appellant Thomas folley held an account with the respondent's bank, where he paid into the account Ksh 400,000. It was agreed between them he would get an interest of 5% per year on the accounts. The appellants brought an action on the strength of the doctrines of equity for an account, claiming that the customer – bank relationship was like that of principal and agent. Required: explain the legal issues raised in this case law. **(7 marks)**
- (c) In this case law: the plaintiff and employee of a company opened an account with the defendant's bank and ran an overdraft of Ksh 700,000. Owing to the financial difficulties, he was unable to pay the overdraft even after being allowed to pay every week. To be sure whether the plaintiff will ever pay, the defendant's bank telephoned the employer and demanded to be told why the defendant required the address. The bank told the employer that the plaintiff had financial problems. On the basis this information the plaintiff was dismissed from his employment. Required: Analyze all the legal elements in this case law. **(7 marks)**
- (d) In this case law: the plaintiff advertised a car for sale, a swindler visited her home, and asked if he could buy the car and offered a cheque. The lady refused to accept the cheque so the swindler said he was "Mr. .P.G Hutchinson" and gave the real Mr. Hutchinson's address and telephone. After checking the name and address in the directory, the lady accepted, and parted with the car. The cheque was dishonored .Meanwhile; the swindler had sold the car to "Little". The plaintiff sought to recover the car from "Little" that bought in good faith and bought cash for it. Required: Analyze the legal issues in this case law. **(8 marks)**

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QUESTION TWO

- (a) Explain the following: classification of banks, functions of commercial banks, functions of central bank of Kenya (Cap.491) laws of Kenya. **(10 marks)**
- (b) Discuss different principles of lending, explain the following: classification of loans and advances, types of securities needed by bank when giving and controlling advances. **(10marks)**

QUESTION THREE

- (a) Discuss the following banking terms: advance funds, overdraft, discounting bills of exchange (Cap.27), bankers cheque, credit transfer, and standing order. **(10 marks)**
- (b) Describe the following. Different crossing of the cheques, different types of cheques, explain twelve (12) reasons as to why a bank can refuse to pay a cheque presented by a customer to the bank. **(10 marks)**

QUESTION FOUR

- (a) Explain the international banks structure, and internal organizational structure of banks, giving relevant examples. Where did the word “bank” come from? **(10 marks)**
- (b) Define a “bank”, explain the relationship between a bank and a customer. Describe who is a customer of a bank. Analyze the obligations of a bank and a customer. **(10marks)**

QUESTION FIVE

Describe ten (10) different laws governing banks and the banking Act in Kenya as per the banking law and practice. Describe different stages in the formation of new banks in Kenya. **(20 marks)**

