MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 411: TRUST AND EXECUTORSHIPS ACCOUNTS.

Date: 10/8/2016 **Time: 11.00-1.00 PM**

INSTRUCTIONS

Answer Question One and any Other Two Questions

QUESTION ONE (30MARKS)

a) Explain the characteristics of a will.

b) Explain the causes of failure of legacies and gifts of residue.

c) Explain the term abatement and the rule of lapse as used in accounting for executorships.

d) Kombo died on 31 October 2000 and left his estate as follows:

	Sh
Household furniture	90,000
Cash in house	2,000
Cash at bank	250,000
10,000 ordinary shares of Sh.20 each in KFC Ltd.	
Valued at Sh.30 per share.	300,000
Investment at 5% on freehold property securities	
(interest thereon paid to 30 June 2000)	400,000
Share in business of Kombo & Co. valued at death	1,226,000
Sundry debtors	20,000
His liability amounted to	5,000
Funeral expenses	10,000

The following additional information is available:

1. A legacy of Sh.20,000 was bequeathed to his executor and was paid on 28 January 2001.
2. The residue of the estate was left in trust for his infant son.
3. The household furniture was sold on 15 December 2000 for Sh.96,000.
4. The shares were sold on the same date at Sh.29 ex div: a dividend being received on 25 January 2001 at 10% for the year ending 31 December 2000.
5. Interest on investment in freehold property securities was received on 31 December 2000, on which date the shares in the business of Kombo & Co. was received with interest at 5% per annum.
6. The liabilities and funeral expenses were discharged on 20 December 2000 on which date Sh.10,000 of the debts due were received. The balance being unpaid at the date of preparation of the accounts.

Required:

i) The Estate cash book

ii) The Estate income account

iii) The Estate capital account

iv) Balance sheet of Kombo: deceased as at 31 January 2001

QUESTION TWO (20 MARKS)

Avira died in 1997 and left, by his will, the residue of his estate to his children, Reuben and Levi, in equal shares. The will directed that a child's share of the estate should be ascertained and discharged on reaching twenty one years of age. The trustees were empowered to maintain the children out of the income and to use their unfettered discretion in the choice of investments. The trial balance extracted from the books of the trust as at 31 July 2003 was as follows:

	Sh. "000"	**Sh. "000"**
Investment on estate capital account		
20,000 shares of Sh.100 each in ABC Ltd.	2,200	
30,000 shares of Sh.100 each in Mapingo Ltd.	2,800	
Investment on accumulation accounts:		
1,000 shares of Sh.100 each in ABC Ltd.	110	
1,000 shares of Sh.100 each in Mapingo Ltd.	90	
Bank balances:		
On estate capital account	200	
On accumulation accounts	50	
Estate capital account		5,200
Accumulation accounts:		
Reuben		150
Levi		100
	5,450	5,450

Reuben attained the age of twenty one years on 31 October 2003, on which date the market prices of the investments were

ABC Ltd shares	Sh. 125
Mapingo Ltd. Shares	Sh. 100

Transactions in the three months to 31 October 2003 comprised:

1 August 2003: Receipt of dividend of sh. 5 each share inABC ltd.

31 August 2003: Maintenance payment of sh 30,000 and sh.20,000 for Reuben and Levi respectively.

31 October 2003:The trustees revalued all of the investments and discharged their liability to Reuben by the transfer to him of:

- One half of each of the investments held on capital accounts
-3/5ths of each of the investments held on accumulation accounts.
-Cash for the balance due to him.

Required:

i. Estate capital account.
ii. Accumulation accounts.
iii. Distribution to Reuben account.

QUESTION THREE (20 MARKS)

a) Explain the requirements of a valid will.

b) Mr. Ruare dies, leaving his two wives Lucky and Chity whom he married under a system of law which permits polygamy. A third wife Beaty had predeceased him. Lucky has three children Peter , Lowe and Ricci. Beaty had two children Short and Tall. Chity had no children.

All the children are alive at the time of Mr. Ruare's death. The value of his personal and household effects was Sh.350,000 and the value of the net intestate estate was Sh.3,150,000.

c) Lazarus Koech, who had two sons,Seroney and Kiptoo and two daughters, Esther and Sarah, died intestate on 31st January 1995, leaving a widow, emilly. Saroney had died some years earlier leaving a son, John and a daughter Helen. Sarah had also predeceased her father leaving two sons, Ken and James.

During his lifetime, Koech had made the following cash gifts to his children and grandchildren:

	Sh.
Seroney	16,000
Kiptoo	60,000
Esther	20,000
Ken	10,000
James	12,000

The residue of the estate net of the advances and after distributing the chattels to the widow amounted to Sh.292,000. Emily died a year later after her husband.

Required:

Prepare a statement showing the distribution of the estate on the death of Koech and also on the death of Emily, assuming that there had been no change on the value of the estate in the intervening period.

QUESTION FOUR (20 MARKS)

Robin (aged 54) died in a road accident on 31 December 20X1. On 1 May 20X2 after his executors had paid all his debts, (except for the mortgage on his freehold house referred to below) testamentary and funeral expenses, his estate was ascertained as follows:

	Shs'000	**Shs'000**
Cash on bank accounts		8,500
Freehold house		6,500
Jaguar motor car		720
Mercedes motor car		1,260
Stamp collection		850
Debt due from William		120
Furniture and other personal effects		1,345
10,000 Ordinary Shs.10 shares in Kenya Breweries Limited		1,200
4,500 Ordinary Shs.10 shares in Nation Printers Limited		740
Shs.800,000 5% Kenya Stock		235

Income received to date:

Bank interest	230
Dividend from Nation Printers Limited	37
	267
Less: Mortgage interest paid 31 March 20X2	120
	147

Extracts from Robin's will left bequests as follows:

(a) 'To my wife Annie, I leave my furniture and other personal effects and the residue of my estate, after payment of my debts and expenses.'

(b) 'To each of my sons, David, Jack and Stuart, Shs.1m.

(c) 'To my unmarried daughter, Clare, my freehold house subject to any mortgage thereon.' The house was subject to a mortgage of Shs.2m. carrying interest at 12% per annum payable 31 March and 30 September.

(d) 'To my friend Tony, whichever of the motor cars owned by me at the time of my death he may choose.'

(e) 'To my good friend Gerry Gangla, Shs.100,000.

(f) 'To my friend Ben, some of my furniture.'

(g) 'To my cousin Susan, my painting of the "Street Scene" by Renoir.'

(h) 'To my friend Dennis, Shs.200,000 on condition he gives up the bad habit of smoking.'

(i) 'To my brother Joseph, 1,000 shares in Brooke Bond(K) Ltd.'

(j) 'To my sister Elsie, Shs.600,000.'

(k) 'To my secretary Betty, half of my holdings of Ordinary Shs.10 shares in Kenya Breweries Ltd.'

(l) 'To my cousin Miriam, my holding of Shs.800,000 5 1/2% Kenya Stock and my holding of shares in Cassava Ltd.'

(m) 'To my chauffeur, Malcolm, Shs.300,000.

(n) 'To my gardener Jeremiah, Shs.150,000 if still in my employ at the death of my death.'

(o) 'To my friend Eric, my 6,000 Ordinary shares in Printers Ltd.'

(p) 'To my nephew Frank, 4,000 Ordinary Shs.10 shares from my holding of such shares in Kenya Breweries Ltd.'

(q) 'To my niece Tracey, Shs.200,000 payable out of my holding of Shs.10 Ordinary shares in Kenya Breweries Ltd.'

(r) 'To my friend Timothy, Shs.150,000.'

(s) 'To my cousin Hazel, the Shs.120,000 which William owes me.'

(t) 'To St. Peter's Church Shs.100,000 to provide a stained glass window in memory of my mother.'

(u) 'To my good friend Gangla Shs.150,000 for looking after my house for many years when I went on holiday.'

Robin's executors ascertained that the following beneficiaries were dead:

- Son Jack, died 1989, leaving a wife and two children.
- Son Stuart, died 1988, leaving a wife.
- Sister Elsie, died 20x6, leaving a husband and two daughters.
- Chauffeur Malcolm (aged 60) killed in the same accident as Robin. It was impossible to determine the order in which Robin and Malcolm died.

The executors also advise you that:

i. Tony elected to have the Mercedes car.
ii. Robin sold the Renoir painting in 1987 for Shs.3m.
iii. Dennis replied in a letter to the executors that he had no intention of giving up smoking.
iv. Robin owned no shares in Brooke Bond Ltd. The value of 1,000 shares in that company is Shs.330,000.
v. There is no such investment as 5 1/2% Kenya Stock. The reference in Robin's will to 5 1/2% is thought to be a typing error not previously noticed.
vi. Robin sold his shares in Cassava Ltd. using the proceeds of Shs.900,000 to purchase his shareholding in Kenya Breweries Ltd.
vii. The gardener Jeremiah retired in June 20X0.
viii. In early 1990, Printer Ltd. merged with Nation Ltd. to form a new company Nation Printers Ltd. and Robin received 4,500 new Ordinary shares in Nation Printers Ltd. in exchange for his 6,000 Ordinary shares in Printers Ltd.

ix. Timothy replied in a letter that he 'didn't' want anything from Robin's estate because actually he hated the sight of him.'

x. In 1989 Robin had paid Shs.125,000 for a stained glass window in St. Peter's church in memory of his mother.

xi. His daughter Clare had married in April 1989.

xii. Gerry Gangla claimed both legacies.

Required:

(a) A statement showing the distribution of Robin's estate on 1 May 20X2. (12 marks)

(b) A list of legacies to which the executors should not assent, briefly explaining the reason why the legacy is invalidated. (8 marks)

QUESTION FIVE (20 MARKS)

Mali Mingi (aged 57) died in a road accident on 31 December 1999. On 1 May 2000 after his executors had paid all debts (except for the mortgage for his freehold house and debt to Mkopeshaji) testamentary and funeral expenses, his estate was ascertained as follows:

		Sh '000'
Cash in bank accounts		4,250
Freehold house		3,250
Toyota corolla		360
Nissan sunny		220
Television and music system		105
Debt due from Pungufu		40
Furniture and personal effects		302
10,000 ordinary shares in Cement Ltd.		1,200
4,500 ordinary shares in Soko Mjinga		370
Ltd.		165
Sh.800,000 10% Kenya stock		
Income received to date		
Interest	230	
Dividend from Soko Mjinga Limited	37	
	267	
Less: Mortgage interest paid 31 march		120
2000		147
		10,409

Extracts from Mali Mingi's will left bequests as follows:

1. To each of my sons. Kikwajuni, Mnazini, and Mwembeni Sh.1 million.
2. To my wife Darajani, I leave my furniture, household and personal effects and the residue of my estate.
3. To my daughter Nanjale, my freehold house free of all duties. The house was subject to a mortgage of Sh.1 million carrying interest at 24% per annum payable 31 March and 30 September. Duty on the house amounts to Sh.130,000.
4. To my friend Kisitu, one of the motor cars owned by me at the time of my death he may choose.
5. To my friend Mlungu Sh.100,000.
6. To my sisters-in-law Sh.300,000
7. To my cousin, Nipa, my painting of Mausoleum by Kikuvu.
8. To my driver Ndeleva Sh.150,000
9. To my friend Shimba, my holding of Sh.800,000 110% Kenya stock, Mali Mengi owed Shimba Sh.100,000.
10. To my sister Malindi Sh.300,000
11. To my personal assistant, Sijapata half of my holdings in Cement Ltd.
12. To my niece Sinani, 4,000 ordinary shares from my holding of such shares in Cement Ltd.
13. To my nephew Shaibu Sh.200,000 payable out of my shares in Cement Ltd.
14. To my friend Mlungu Sh.50,000.
15. To my neighbour, Jirani Sh.50,000.
16. To my sister Dada, Sh.100,000 to establish a business.

Mali Mingi executors ascertained the following beneficiaries were dead:

- Son Mnazini died in 1997 leaving a wife and two children.
- Son Mwembeni died in 1998 leaving a wife.
- Sister Malindi died in 1996 leaving two daughters.
- Driver, Ndeleva aged 60 died in the same accident as Mali Mengi. It was impossible to determine the order in which Mali Mengi and Ndeleva died.

The executors also advise you that:

(i). Kisitu chose the Toyota corolla

(ii). Mali Mengi sold his painting of the mausoleum using the proceeds to purchase his holding in Soko Mjinga Ltd.

(iii). There is no such investment as 110% Kenya stock. The referees in the will to 110% is thought to be a typing error not previously noticed.

(iv). Jirani replied in writing that he did not want anything from Mali Mengi because Mali Mingi was a bad neighbour.

(v). Mali Mingi paid the Sh.100,000 during his life to his sister Dada to establish a business.

Required:

(a) A statement showing the distribution of Mali Mingi's estate on 1 May 2000. (16 marks)

(b) A list of legacies to which the executors should not assent, briefly give reasons for the decision. (4 marks)