MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR
BACHELOR COMMERCE

BAC 411: TRUST AND EXECUTORSHIP LAW AND ACCCOUNTS

DATE:20/12/2017 **TIME:2.00-4.00 PM**

INSTRUCTIONS:
Answer Question One and Any Other Two Questions

QUESTION ONE (compulsory) (30 marks)

a) Briefly explain five characteristics of a will (10 marks)

b) Kombo died on 31 October 2016 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	

Sundry debtors	1,226,000
His liability amounted to	20,000
Funeral expenses	5,000
	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 2017.
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 2017 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 2016 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) Journal entries to record the above transactions (10 marks)
ii) The Estate cash book (5 marks)
iii) Balance sheet of Kombo: deceased as at 31 January 2017 (5 marks)

QUESTION TWO (20 MARKS)

Abincha died on 31st March 2015 and by his written will, he left the residue of his estate to his three sons, Bruce, Chris and Dan. Unfortunately, his closest friend claimed he heard him orally swearing to have left huge sums of money to his other sons from his mysterious mistress.

a) In your own words describe the meaning of a will according to the provision of the Law of Succession Act. (5 marks)

b) Explain the requirements of a valid will (10 marks)

c) What will invalidate an oral will (5 marks)

QUESTION THREE

Robin (aged 54) died in a road accident on 31 December 2011. On 1 May 2012 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 2012	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 2012. (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 FOUR (20 MARKS)

Andrew, a widower, died on 28 February 20X4, and by his will executed ten years earlier made the following bequests:

(a) `To my brother George, my record collection.'

(b) `To my brother David, on his wedding day, Shs.50,000.'

(c) `To my dearest sister-in-law, my furniture and other personal chattels, not otherwise bequeathed.'

(d) `To my nephew Peter, a Mini Metro motor car.'

(e) `To my niece Sandra, Shs.200,000 payable out of my account with the Lukenya Building Society.'

(f) `To my nephew Timothy, Shs.100,000 in my deposit account at Trust Bank.'

(g) `To my cousin Patrick, my 1,000 ordinary shares in Kakuzi Ltd.

(h) `To the All Saints Cathedral, Shs100,000 for the refurbishment of the choir stalls.'

(i) `To each of my sons Edward and Francis, Shs.1.5m.

(j) `The residue of my estate on trust to provide an annual income for my daughters Barbara and Caroline, until they marry, and thereafter to my grandchildren in equal shares.'

You ascertain the following:

i. George and Edward both predeceased Andrew. Each had two children living at the date of Andrew's death.

ii. David is a confirmed bachelor. He declares that `having failed to get me married while he was alive, Andrew will not bribe me into marriage now he is dead.'

iii. Andrew had three sisters-in-law, all of whom he saw regularly prior to his death.

iv. At the date of the will Andrew had owned a Datsun car, two years ago he replaced it with a Toyota; he has never owned a Mini Metro car.

v. The Lukenya Building Society account had been closed on 30 September 20X3.

vi. On 28 February 20X4 there was only Shs.72,000 in the deposit account at Trust Bank.

vii. Kakuzi Ltd had converted each of its Shs.20 ordinary shares into 4 units of Shs.5 ordinary stock in October 20X2. Andrew owned exactly 4,000 units of Kakuzi Ltd ordinary stock at the date of his death.

viii. The choir stalls at the All Saints Cathedral had been refurbished fully the previous autumn at which time Andrew had contributed Shs.120,000 to the Refurbishment Fund.

ix. Both Andrew's daughters had married prior to his death and Andrew had a total of five grandchildren alive at 29 February 20X4, the eldest of whom was eight years of age.

x. In addition to the assets specifically referred to above, Andrew's estate also included a freehold house together with cash and investments totalling Shs.7m, after payment of debts and funeral expenses.

Required:

In relation to each bequest in Andrew's will:

a) State the type of legacy referred to (15 marks)

b) Explain whether or not the executors should give their assent to the gift. *(*5 marks)

QUESTION FIVE (20 MARKS)

Mali Mengi (aged 57) died in a road accident on 31 December 1999 without leaving a will. His estate is distributed according to the Law of Succession Act . four situations can be four situations can be

Required:

(a) A statement explaining four situations Mali Mengi's estate can be of distributed (4 marks)

(b) In each of the following situations, illustrate how the estates of the diseased will be distributed:

i) A dies intestate; he never married. His father and brother have pre-deceased (i.e died before) him. A is survived by his brothers C and D, and sisters E and F; his brother B pre-deceased him, but left a wife K and children L and M. His net estate was worth Shs. 3m. How will it be divided on his death? (4 marks)

ii) Mr A dies intestate; his wife Mrs A died some years ago. Mr A is survived by his sons B (22 years old) and C (18 years only). His daughter is at school; she is not yet married. His net estate is worth Shs.3m. How will his property be divided? (4 marks)

iii) Mr K dies intestate; his wife Mrs K died two weeks before Mr K. Mr K's eldest son, M, died some years ago; M's children P, Q and R are alive at the time of Mr K's death. B, C and D, Mr K's other children were all alive when Mr K died. His net estate is worth Shs.3.6m; how will it be divided? (4 marks)

iv) Mr K dies intestate, his wife and eldest son J having predeceased him. Mr K is survived by A and B the son and daughter of this eldest son J, and his own sons M and N. During Mr. K's life—time, he (Mr. K) had made gifts of Shs.1m. to N, and Shs 500,000 to B. Mr. K left net estate worth Shs.5m: How would it be divided? (4 marks)