MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 411: TRUST AND EXECUTORSHIP

DATE: 2/5/2019 **TIME: 11.00-1.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

Show your working where necessary,

QUESTION ONE (COMPULSORY)

a) Explain the meaning of the following fiduciary relationships:

i) Trust (3 marks)

ii) Executorship (3 marks)

b) When a person dies, application is made in court for permission to wind up his estate. Describe three ways in which an estate can be disposed. (6 marks)

c) The court gives the trustees the control of trust property with defined duties and powers. Describe clearly any six duties of a trustee of a testamentary trust. (6 marks)

d) Lina died in May 29th 2017 leaving Sasini tea Ltd sh.10, 20 000 ordinary shares and 10% loan stock .Interest on the stock is paid on 30th June and 31st December. On 30th August Sasini Ltd paid a dividend of 12% for the year ended 30th June 2017. Interest for the first half of the year was paid on the same date.

Required: Journal entries to record the above income (6 marks)

e) After the death of a testator, the will must go through a legal process. Describe the specific steps undertaken through the probate process until the naming of an executor.

(6 marks)

QUESTION TWO (20 MARKS)

Justus Milao died intestate on April 30th2016, and left a window and his twins, Peter and John aged seven years.

His estate at death consisted of:

	Shs.
Sh 280000, 9% Government stock	231,000
(Interest 31st March and 30th September	
Sh 240,000 2 ½ % savings bond	200,000
(interest 30th April and 31st October	
Policy on his life	300 000
Building society deposit at 8%	45 000
(interest 31st December and 30th June)	
Accrued interest on society deposits	900
Household furniture	30 000
Cash in the bank	47 350
Debts and funeral expenses	6,000

Interest on government stocks was received on due dates.

Milao had made no chargeable transfers during his life.

The following transactions took place during the year ended 31st March 2017:

2016

31 May Expenses of sh 111,630 were paid in respect of estate

30th June The building society deposit was repaid to personal representatives, together with interest due.

12 July sh 180000, 9% government stock was sold ex-int; due to 1 August, the net proceeds amounting to sh 147,600.

10 August The debts and funeral expenses were paid.

30 September Bank debited the personal representative's account with interest amounting to sh 520 (chargeable to income).

2 October The residual was given to the window's statutory rights in the capital of the estate.

31 January 2017 Administration expenses of sh 4000 (all chargeable against capital) were paid.

Required:Prepare

a)The estate cash book for the year ended 31st March 2017. (8 marks)

b)The estate capital account for the year ended 31st march 2017. (7 marks)

b)Statement of financial position as at 31st March 2017. (5 marks)

QUESTION THREE (20 MARKS)

Mambo pima died on 31 October 2013 and left his estate as follows :-

	Shs
Cash at the bank	126,000
Household furniture and	45 000
10,000 ordinary shares of sh.10 each in BAT Kenya Limited,	
Valued at sh.13 per share	130,000
Investment at 5 per cent on freehold property shares	
(Interest thereon paid to 30 June)	200,000
Share in business of Mambo pima and Co. valued at	
date of death	613,200
Sundry debtors	10,000
Liabilities	2,500
Funeral expenses	5,000

The following information is also available:

A legacy of 10,000 was bequeathed to his executor and was paid on 28 January 2014. The residue of the estate was left in trust of his six year old son.

On 15th December 2013 the household furniture was sold for sh.50,000. The shares were sold on 19th December at sh. 12 ex.div, a dividend being received on 25th January 2014 at 8%for the year ending 31st December 2013. Interest on investment in freehold property shares was received on 31st December 2013, on which date the share in the business of Mambo Pima Co. was received with interest at 7%per annum.

The liabilities and funeral expenses were discharged on 20 December 2013 on which date sh 7 ,000 of the debtors due were received , the balance being unpaid at the date of preparation of the accounts.

Required:

a) The Estate Capital Account (12 marks)

b) The Estate cash book (8 marks)

QUESTION FOUR (20 MARKS)

a) Write short notes on the following:

   i) Investment of funds as prescribed by the Succession Act. Cap. 160 (5 marks)

   ii) Investments authorized by Trust investment Act. (5 marks)

   iii) Payment of legacies out the the principal of the estate (5 marks)

b) John Mambo has invested heavily in real estate and is planning to place his property in a trust. Explain why you would recommend an express private trust. (5 marks)

QUESTION FIVE (20 MARKS)

a) Kimani died on 1st February 2008, leaving the following estate:

	Shs
Building society deposit	50,420
Interest accrued to date	390
Balance at bank	50,330
Personal chattels	42,000
Freehold house	360,000
Sh 60,000 , 10% government stock	540,000
9,000 ordinary shares of sh 10 each in Kenya breweries	120,000
5,000 ordinary shares of sh10 each in B.A.T (k) Ltd	50,000
Debts and funeral expenses	12,750
Liabilities	600

His will included the following legacies:

i) To his wife, Jane the freehold house, personal chattels, the ordinary shares in both breweries and B.A.T and the sum of shs 10,000 from the bank account

ii) To his daughter swan, his land at Ngong and the sum of shs 216,000.

iii) To his sons George, Herold and Fredrick the sum of shs 80,000 each.

iv) To his sister caroline the sum of shs 100,000

v) To his brother victor his holding of shs 50,000 saving bond.

His will also directed that the residue and any income arising during the administration of the estate should go to wife Jane.

The land at Ngong was sold for shs 150,000 in 2006 and the savings bonds encashed in 2007. His son Harold died in 2004 leaving the sons John and Philip. All beneficiaries are full age.

The following transactions took place during three months period ended 30th April 2008.

28th February Received dividends of shs 1 per share for the year ended 31st December 2007 on shares in Breweries Ltd.

31st March Received proceeds of sale of Government stock of shs.650,000

30th April Withdrew balance of shs 51,570 from building society a/c including interest to date.

Debts and funeral expenses were paid on 1st February 2008.

Required :

a) Estate capital account for the period ended 30th April 2008. (12 marks)

b) Cash account for the period ended 30th April 2008. (8 marks)