

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

## EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

## BCOM 416: TRUST AND EXECUTORSHIP ACCOUNTING

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: THURSDAY 23/09/2021

2.30 P.M – 4.30 P.M.

**INSTRUCTIONS:**

- Answer question ONE and any other two.

**QUESTION ONE**

- (a) Explain the conditions for an intestacy succession to be applied. (6 marks)
- (b) Muteshi died on 31<sup>st</sup> October 2017 and left his estate as follows:

	Kshs
House hold furniture	150, 000
Cash in house	510,000
Cash at bank	395,000
35,000 ordinary shares of Shs. 20 each in Kamaki Ltd value at Shs. 10 per share	350,000
Investment at 5% on freehold property securities	510,000
Share in business of EABL valued at death	1,400,000
Sundry debtors	25,000
His liabilities amounted to	17,000
Funeral expenses	22,000

The following additional information is available

- (a) A legacy of shs. 30,000 was bequeathed to this executor and was paid on 28 January 2018
- (b) The residue of the estate was left in trust for his infant son.
- (c) The household furniture was sold on 15 December 2018 for Shs. 98,000

- (d) The shares were sold on the same date at Shs 29 ex div. A dividend was received on 25 January 2018 at 12% for the year ending 31 December 2017.
- (e) Interest on investment in freehold property securities was received on 31 December 2018, on which date dividend on the shares in the business of EABL was received ST 8% rate.
- (f) The liabilities and funeral expenses were discharged on 20 December 2017 on which date Shs. 19,000 of the debts due were received, the

**Required**

- The estate cash book (6 marks)
- The estate income account (4 marks)
- The estate capital account (6 marks)
- Statement of financial position of Muteshi deceased as at 31 December, 2018 (6 marks)

**QUESTION TWO**

- (a) Distinguish between executorships and trusts. (4 marks)
- (b) Explain the major accounts kept by trusts. (4 marks)
- (c) Kanyigi had three wives but one had predeceased him. Lena has three children Pato, Petie and Suleiman. Betty (deceased) had no children. Carol had two children, Aleki and Walaa. All the children are alive at the time to Mr. Kanyigi's death. The value of his personal and household effects was Shs. 350,000 and the value of the net interstate estate was Shs. 9,200,000

**Required:**

A clear statement to show how Mr. Kanyigi's property would devolve. (12 marks)

**QUESTION THREE**

When both parents of Ann and Benny died, their aunt set up a trust to provide for them. They were to share income equality.

The aunt directed the trustees to invest only in investments authorised by the Trustees Act

Fixed interest investments	Sh. '000'	Sh. '000'
Sh. 3 million 12% Kenya stock		3000
Cash at bank		<u>45</u>
		3,045
Water range investments:		
30,000 shares in EAI (K) Ltd.		3,000
Cash at bank		<u>100</u>
		3,100
Special range investments:		

10,000 shares of Sh.10 in updown Ltd.	<u>120</u>	120
Income cash		<u>52</u>
		<u>6317</u>
Trust capital:		
Fixed Interest Fund	3,045	
Wide Range Fund	3,100	
Special Range Fund	120	
Life Tenants' Accounts		
Ann	26	
Benny	26	52
		<u>6,317</u>

The trust's other receipts and payments were as follows:

		Sh. '000'
<b>1996</b>		
April 15	Amount paid to life tenants	60
April 30	Dividends of 40% on the share of Updown Ltd. For the year ended 31 December 1995	
	Proceeds of sale of 30,000 shares in EAI (K) Ltd.	3,500
September 15	Purchase of 36,000 Sh. 10 ordinary shares in Bamburi (Kenya) Ltd. A wider range investment	
December 14	Receipt of interim dividend of 30% on the shares in EAI (K) Ltd., for the year to 31 December 1996	150
December 31	Receipt of proceeds of sale 10,000 shares in Updown Ltd.	360
December 31	Purchase of Sh. 450,000 nominal of 12% Kenya Stock at 90	
	Receipt of Kenya government stock interest for 1 year	
<b>1997</b>		
January 20	Paid to Benny in respect of income	5
March 31	Paid out of income administration expenses for the year	7

**Required**

- (a) Write up the trust cash account, the income account, the life tenants' account and the trust capital account for the year ended 31 March 1997. (12 marks)
- (b) Prepare the trust balance sheet as at 31 March 1997. (8 marks)

**QUESTION FOUR**

You have been invited in an executorship seminar to make a case for and against inheritance. Prepare a comprehensive memorandum for this case and critique both positions. (20 marks)