

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 416: TRUST AND EXECUTORSHIP ACCOUNTING

STREAMS: BCOM (ODEL)
HOURS

TIME: 2

DAY/DATE: THURSDAY 07/10/2021

8.30 A.M – 10.30 A.M.

INSTRUCTIONS:

Answer question ONE and any other TWO.

QUESTION ONE

- (a) Explain the order of priority in payment of legacies. (6 marks)
- (b) Musengya died on 1 February 2018 leaving the following estates:

	Ksh
Building society deposit	5,042
Interest accrued to date	39
Balance at bank	4,965
Personal chattels	3,600
Freehold house	24,000
Kshs. 60,000 10% Government Stock	42,000
7,000 ordinary shares of Kshs. 1 each in K Ltd	10,000
3,000 ordinary shares of Kshs. 1 each in M Ltd	3,000
Debts and funeral expenses amounted to Kshs.	1,046

His will included the following legacies:

- (i) To his wife, Norah the freehold house, personal chattels, the ordinary shares in both Walters Ltd and Charles Ltd., and the sum of Kshs. 15,000.
- (ii) To his daughter Kamene, his country cottage and the sum of Kshs. 21,600
- (iii) To his sons Anold, Bolt and Clark the sum of Kshs. 12,000 each
- (iv) To his sister Peninah the sum of Kshs. 10,000
- (v) To his friend Musembi the sum of Kshs. 2,400

(vi) To his brother Victor his holding of Kshs. 5,000 savings Bonds.

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

You ascertain that the country was sold for Kshs. 15,000 in 2016 and the Savings Bonds encashed in 2017. His sister Peninah had died in 2015 and his son Anold died in 2014, leaving two sons Bolt and Clark. All beneficiaries are of full age.

The following transactions took place during the three month period ended 30 April 2018.

28 February Receivable dividend of Kshs 0.1 per share for the year ended 31 March 2017 on shares in K Ltd.

31 March Receivable proceeds of sales of government stocks Kshs. 41,000. Paid Kshs. 2,250 Estate Duty, being the whole amount arising on death.

30 April Withdrew balance of Kshs. 5,157 from building society account including interest to date. Paid debts and funeral expenses. Distributed all legacies and completed the administration of the estate.

You are required to prepare the estate accounts showing administration of the Estate. (20 marks)

QUESTION TWO

(a) Describe five causes of legacies failure that can be bequeathed in a will. (10 marks)

(b) Mr. Omondi dies intestate, leaving his two wives Adhiambo and Aweto whom he married under a system of law which permits polygamy. A third wife Wangui had predeceased him. Adhiambo has three children Oloo, Otieno and Randa. Wangui had two children Kamau and Otenyo. Aweto has no children.

All the children are alive at the time of Mr. Omond's death. The value of his personal and household effects was Sh. 310,000 and the value of the net intestate estate was Sh. 2,850,000

Required:

A clear statement to show how Mr. Omondi's property would devolve. (10 marks)

QUESTION THREE

(a) Abdikadir died 6 years ago and by his will left the residue of his estate in trust for his children Abdi and Hassan. The will directed that a child's share be ascertained and discharged on reaching the age of 18 years. The trustees were empowered to maintain the children out of income and use their discretion in the choice investment.

The following trial balance was extracted from the books as at 31 December 2010

PARTICULARS	DR	CR
Investment on capital accounts		
200,000 shares of Sh. 200 each in NMG Ltd	28,000	
200,000 shares of Sh.200 each in SCB Ltd	22,000	
Investment in accumulation accounts		
10,000 shares of Sh.100 each in NMG Ltd	1100	
10,000 shares of Sh. 100 each in SCB Ltd	900	
Balance at bank		
Estate capital account	2,000	
Accumulation account	500	
Estate capital account		52,000
Accumulation account		
Abdi		1,500
Hassan		1,000
	<u>54,500</u>	<u>54,500</u>

Abdi attained the age of 18 years on 31st March 2011 on which date market price for shares were:

NMG Sh. 135

SCB Sh. 120

Transactions in three months ended 31 March 2011 were as follows

January 1 receipt of dividend of Sh. 5 each on shares in NMG Ltd

January 31 maintenance payments: Abdi Sh. 300,000 Hassan Sh. 200,000

On 31 March the trustee revalued all the investments and discharged their liability to Abdi by a transfer to him of:

- Half of each of the investment's held on capital account.
- Three-fifths of the investments held on accumulation accounts.
- Cash for the balance of amount due to him

Required:

- Estate capital account (5 marks)
- Accumulation account (15 marks)

QUESTION FOUR

- Describe three likely states of intestacy and devolvement required. (12 marks)
 - Discuss four defenses available to a trustee. (8 marks)
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