

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE

BCOM 416: TRUST AND EXECUTORSHIP ACCOUNTING

STREAMS: BCOM (ODEL)

TIME: 2 HOURS

DAY/DATE: FRIDAY 23/7/2021

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a) Henry and Jane married in 2000. During the first ten years of their marriage, Henry and Jane lived in a free property given as a wedding gift. Henry worked on writing a novel. Jane worked as a history professor. Jane kept all her earnings in a separate account.

Eventually, Henry gave up on the novel, and he and Jane moved to Nairobi. Jane then set up an irrevocable trust with the kshs. 10,000,000 she had saved from her earnings during the marriage. She named Ken as trustee and Henry as co-trustee. She directed that one half the trust income was to be paid to her for life, and that the other one half was to be paid to Adrian, to be spent only for disaster relief, and that, at her death, all remaining assets were to go to Adrian.

Jane invested all assets in Nairobi stocks, which paid substantial dividends, but decreased in value by 10%. Adrian spent all the income it received from the trust for administrative expenses not disaster relief

Later, Ken sold all the Nairobi stocks and invested the proceeds in a new house, in which he lived rent free. The house increased in value by 20%.

Henry has sued Ken for breach of trust, and has sued Adrian for return of the income he spent on administrative costs.

- (i) What is the likely result of Henry's suit against Ken? Discuss [4 marks]

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- (ii) What is the likely result of Henry's suit against Adrian? Discuss [4 marks]
- (iii) What rights, if any, does Henry have in the trust assets? Discuss [4 marks]

(b) Mr. Karanja died on 30th September 2017, his residuary estate is held in trust for his three children Faraja, Yohana, and John equally, on the following terms:

- (i) A child shares of income and capital should be ascertained and discharged when the child reaches 21 years or earlier marriage.
- (ii) When a child requires an amount for educational purposes such amounts may be paid out of the capital held in trust provided interest is charged on that amount at 4% per year.

Estate capital accounts at 31st December 2018 stood at kshs 3,800,000 which together with an amount of kshs 18,000 payable as testamentary expenses (capital) is represented by the following assets:

- (i) A house at Kinyerezi which along with furniture therein was valued at kshs. 2,000,000 and has been given on rent at kshs. 10,000 per month.
- (ii) 15,000 ordinary shares of kshs. 100 each in Kanyamu ltd valued at kshs. 81 each.
- (iii) Kshs. 60,000 5% National Development Bonds (interest payable half yearly on 30th June and 31st December) valued for estate duty at kshs. 58,400/=
- (iv) Balance in cash

Faraja, Yohana and John had kshs. 30,000, 45000 and 70,500 respectively in their income accumulations account on 31st December, 1998, while the following liabilities were outstanding on the same date

Trustees remuneration	Kshs. 14,000
Accountancy charges payable	8,000

Assets representing income accumulations consist of 1,500 ordinary shares of kshs. 100 each Kanyamu ltd acquired at kshs 85 each, and an amount in cash.

Following transactions took place during the year ended December 31st 2019

1. Testamentary expenses outstanding on December 31st 2018 were settled in full three days later.

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2. Rent due on the Kinyerezi house was received half yearly in advance on 1st January and 1st July, while the land rent payable in this connection has been agreed at the kshs 2,000 per year and settled quarterly in arrears on 31st March, 30th June, 30th September and 31st December.
3. Accountancy charges payable in respect of the previous year were settled on 12th February 2019, while the charge relating to the current year have been agreed at kshs. 20,000.
4. The trustee, whose remuneration has been agreed at 5% of all income received in any year, draw kshs. 1,000 on this account on 15th august 2019.
5. Maintenance expenses agreed at kshs. 600, kshs 400 and kshs. 200 per month in respect of Faraja, Yohana and John respectively, were settled quarterly in arrears on dates mentioned in connection with lend rent.
6. Dividends record of Kanyamu ltd was as follows:

In respect of year ended	Nature of dividend	Rate of dividend	Date
31/3/2018	Interim	6%	15/9/2017
31/3/2018	Final	12%	30/6/2018
31/3/2019	Interim	-	-
31/3/2019	Final	18%	31/8/2019
31/3/2020	Interim	6%	15/11/2019
31/3/2020	Final	15%	30/6/2020

7. Yohane signed articles with Mags and company, chartered accounts, on 1st July, 1999 kshs. 10,000 being paid on this date as premium for articles out of the capital funds of the Trust the cash required for this purpose being obtained by the disposal of the required number of ordinary shares in Kinyamu ltd at kshs. 84 per share.
8. Faraja married on 31 December, 2019. His share of the trust property was discharged on that day by a payment in cash, the necessary amount being raised by disposing of the Kinyerezi house at Kshs. 290,000. The National Development Bonds were valued on this date at kshs.560,100 and the shares in Kanyamu ltd at kshs. 90/= per share.

Ignore income tax and assume that all income receivable were received on due dates

You are required to set out:

- (a) The Trust Cash Book and the Beneficiaries Accumulations Accounts in columnar form in respect of the year ending on 31st December 2019 and [8 marks]
- (b) The Trust Balance Sheet as on that date [10 marks]

QUESTION TWO

- (a) Discuss five legacies found in a written will [5 marks]
- (b) Katana died intestate on January 1st 2014 survived by his widow, Rehema and is sixteen years old twin children, Jack and Jane. The estate was valued for probate as follows:-

	Shs.
Life Assurance policy	25,000,000
6% EABL stock	12,000,000
Personal chattels	600,000
Balance with bankers	<u>6,650,000</u>
	44,250,000
Debts due at death and funeral expenses	<u>(2,000,000)</u>
	<u>42,250,000</u>

The administrator's bank transactions during the calendar year 2014 were:

Receipts

Interest on 6% EABL stock (receivable June 30, and December, 31)	1,080,000
Life Assurance Policy	25,000,000

Payments:

Capital transfer tax, including shs. 54,000 interest	5,679,000
Debts and funeral expenses	2,000,000
Purchase of shs. 6,000,000; 6% EABL stock	6,025,000
Maintenance of twins	120,000
Administration costs (all income)	46,000

The widow requested that her life interest in the estate should be ascertained and redeemed on December 31st, 2004.

The administrator consented and agreed the value of her life interest on that date as shs. 7.700.000 to be satisfied by the transfer to her 6% EABL stock (to the nearest shs. 100 of nominal stock, revalued as on the date of ascertainment of residue, namely December 31st 2014 at shs 102 (excluding the interest

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received on that date). The balance of the consideration and all other entitlements were to be settled by cash payment to the widow on 01/12/2014.

Required:

- (a) Prepare:
- (i) The Cash account [5 marks]
 - (ii) The Estate Capital Account for the year ended December 31st, 2014 [5 marks]
- (b) Prepare a statement setting out the Residue of the Estate and its division as on December 31st, 2014 [5 marks]

QUESTION THREE

- (a) What persons may apply for a grant of representation as administrators of an intestacy state? [4 marks]
- (b) Mr. Norman a widower, died leaving a gross estate of Kshs. 21,00,000. By his will he bequeathed specific legacies of Kshs. 3,000,000 and pecuniary legacies of Kshs. 5,500,000 with a residue divided equally between the three children, Allan, Ben and Catherine. Catherine had predeceased Norman leaving no issue. The debts and expenses payable out of Norman's estate amounted to Kshs. 3,500,000. During his lifetime Norman had made the following advances to his children:

Allan	Kshs.	100,000
Ben		150,000
Catherine		120,000

Required: Show the distribution of the estate on the assumption;

- That the will directed payments of debts, expenses and legacies before asserting the residue [4 marks]
 - That the will contained no such directions [4 marks]
- (c) Describe the probate process as applied in the Kenyan law. [8 marks]

QUESTION FOUR

- (a) Mukangula died on 31st March 2015. By his will, he bequeathed the whole of its estate absolutely to his wife, he named his solicitor Mr. Reche as sole executor. The testator's assets at probate value were as under:

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	Kshs.
(i) Balance at bank and cash in hand	4,800,000
(ii) Motor car	10,000,000
(iii) Net value of assets in business carried on by Amba (subject to bank loan mentioned in liabilities)	100,000,000
(iv) Net value of assets in business car	30,000,000
(iv) Life assurance policy	190,000,000

His liabilities were:-

1. 5% Mortgage secured on freehold property of shs 75,000,000 interest paid up to December 31, 2014
2. 7% loan from the NIC of shs 20,000,000 interest paid up to September 30, 2014
3. 8% loan from NBC Ltd, of shs 60,000,000 secured on the fixed and current assets of his business. Interest debited to the account up to December 31, 2014
4. Unsecured loan from Mr. Reche, interest free shs 10,000,000
5. Rates of shs 1,200,000 p.a were assessed on the freehold property and these had been paid up to September 30, 2014. The house was vacant from the date of death and no rates were payable in respect of the period from death.
6. Income tax due on business profits and personal income for the years 2012/13 and 2013/14 of shs. 3,700,000 and shs. 2,650,000 respectively.
7. Gardeners' wages for 5 months to March 31, 2015 at shs. 100,000 per month
8. A loan from his wife to the business of shs. 10,000,000
9. Creditors to food suppliers and personal expenditure shs. 30,380,000
10. Funeral expenses shs. 2,000,000 and testamentary expenses shs. 5,000,000

The executor realized the assets on June 20, 2015 for their probate value and distributed the estate.

Required:

Show the distribution of assets. Ignore tax on mortgage and loan interest payable

[20 marks]