

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR MASTER OF BUSINESS ADMINISTRATION

MBAD 827: TRUST AND EXECUTORSHIP ACCOUNTING

STREAMS: Y2S1

TIME: 3 HOURS

DAY/DATE: TUESDAY 13 /07/ 2021

8.30 AM – 11.30 AM

INSTRUCTIONS:

- Answer Question ONE and any other THREE Questions

QUESTION ONE

- a) Explain and elaborate the features of a valid written will. [8 Marks]
b) Explain four powers of investments of a trustee [12 Marks]
c) Waridi died on 31st October 2018 and left his estate as follows:

	Shs.
Household furniture	1,050,000
Cash in house	510,000
Cash at bank	3,520,000
10000 ordinary shares of shs.20 each in KFC Ltd valued at shs.30 per share	3, 500,000
Investment at 5% on freehold property securities (interest thereon-paid to 30 June 2017)	5,100,000
Share in business of Waridi & co valued at death	13,000500
Sundry debtors	270,000
His liabilities amounted to	50,000
Funeral expenses	290,000

The following additional information is available

- (a) A legacy of shs.100,000 was bequeathed to this executor and was paid on 28 January, 2019
(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. 1,990,000

MBAD 827

- (d) The shares were sold on the same date at shs. 32 ex div, a dividend being received on 25 January 2019 at 10% forth year ending 31 December 2018.
- (e) Interest on investment in freehold property securities was received on 31 December 2019, on which date the shares in the business of Mali & Co. was received with interest rate 5 percent per annum.
- (f) The liabilities and funeral expenses were discharged on 20 December 2017 on which date shs. 17500 of the debts due were received, the balance being unpaid at the date of preparation of the accounts.

Required:

- The estate cashbook [6 Marks]
- The estate income account [4 Marks]
- The estate capital account [6 Marks]
- Statement of financial position of Mali deceased as at 31 January 2019. [4 Marks]

QUESTION TWO

- a) Explain the various legacies that may be bequeathed by a way of a will. [8 Marks]
- b) Mutongoi had four wives but two had predeceased him. Cherry has four children; Pence, Patience, kanana and Sally. Beatrice (deceased) had two children Loise and Kamenu. Jane had no children. All the children are alive at the time to Mr. Mutongoi's death. The fourth wife Camilla had one child, Nthenya. The value of his personal and household effects was shs.600,000 and the value of the net interstate estate was shs.8,500,000.

Required

A clear statement to show how Mr.Mutongoi's property would be distributed.

[8 Marks]

- c) Distinguish between implied and secret trusts. [4 Marks]

QUESTION THREE

- a) Selina died recently and her will contained the following clauses:
 - (i) Kshs.400,000 to her trustees upon trust to invest and apply the income in assisting any persons who wish to retreat from life and spend their time in religious contemplation;
 - (ii) Kshs. 550,000 to be held on trust for the education of the children of poor employees of the farming industry;
 - (iii) Kshs.700,000 on trust to build and maintain a bird sanctuary on the outskirts of town; Advise the trustees as to whether these clauses create valid charitable trusts.[5 Marks]
- b) Kamami died on March 31, 2000. In his will he provided the following:-

MBAD 827

- i) His brother Kativui had to receive an annuity of shs.350,000/= for the rest of his life.
- ii) His sister Wanza had to enjoy the use of the freehold house and its property and receive income from property. Both privileges were to be enjoyed for life.
- iii) The balance of Kamami property was bequeathed to his niece Kalondu who was manager of the trust.

Kamami died on December 31, 1999. On that date, the estate of Kamami comprised the following assets and liabilities as valued for probate:

	Shs.	Shs.
Freehold house		15,000,000
Contents of house		7,000,000
Bank balance		6,000,000
Shs.20,000,000 6%AGIP stock (interest due March 31 & September 30		<u>23,000,000</u>
		<u>51,000,000</u>

Less: Balance of income due to Kativui including shs.250,000 accrued net

Interest on AGIP stock	250,000	
Annuity accrued due to Kativui, (net)	250,000	
Contractor for house repair	<u>250,000</u>	<u>(1,000,000)</u>
		<u>50,000,000</u>

The transactions of the trustees of Kamami were:-

1996

February 28, Payment of capital transfer tax of shs.448,000 and interest of shs.15,000.

March 31 Received interest, on AGIP Stock.

April 1, -Paid contractor Shs.250,000.

Appropriated shs.9,100,000 AGIP stock for payment of future up
annuity and realized balance of shs.1
500,000 stock for shs.10,500,000.

July 1, Paid professional expenses of administration shs.437,000

Required:

Complete set of trust accounts

[15 Marks]

QUESTION FOUR

Evaluate the challenges of development of trust and executorship practice in Kenya.[20 Marks]

QUESTION FIVE

Peter died testate on the 31st January, 2014. He was domiciled at Kitsuru Estate in Nairobi. He had eleven children and two grandchildren. Her estate constituted a large farm in Voi, ten land Rovers, a five acre parcel of land at Ganze, four flats in Kasarani in Nairobi, a posho mill, a five bedroom bungalow in Kangemi Estate in Nairobi, five heds of dairy cattle, a sum of Ksh.5,000,000/= (five million) only in the KCB Account at City Branch. He also owned a three-bedroom house in Naivasha. He owed Equity Bank a sum of Ksh 850,000/= (eight hundred fifty thousand) only. He had borrowed Ksh.3,300,000/ (three million three hundred) only from Kengen Company. He owned a Mercedes benz worth 800,000/= (eight hundred) only and owed Kasee Ksh.50,000/= (fifty thousand) only.

Prior to his death he had named Omolo the executor of her will, and had provided for his dependents vide the will, by which he bequeathed the five acres at voi to her eldest daughter and one of the paragraphs therein referring to the wife read as follows:

“ It is my desire you allow the local church Kshs.200,000”

The will was opened on the 1st of February, 2015 in the presence of witnesses. Thereafter the executor of the will was asked to take stock of the properties and document them in the schedule of assets and the schedule of liabilities. He did so within two days.

Required:

- (i) Show how Peters schedule of assets and schedule of liabilities were drawn.[15 Marks]
 - (ii) Discuss the distribution of property if wife died on 31st February, 2015. [5 Marks]
-