

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 417/416: TRUST AND EXECUTORSHIP ACCOUNTING

STREAMS: BCOM (Y4S2) ODEL

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 15/04/2020

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a) Explain the order of priority in payment of deceased liabilities [6 marks]

(b) Kamenju died on 1 February 2018 leaving the following estate:

	Kshs
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 ksh.1 each in Walters ltd.	10,000
3,000 ordinary shares of ksh. 1 each in Charles ltd	3,000
Debts and funeral expenses amounted to kshs. 1, 046	

His will included the following legacies:

BCOM 417

- (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

He 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 cottage was sold for ksh. 15,000 in 2016 and the Saving bonds purchased in 2017. His sister Peninah had died in 2015 and his son Anold died in 2014, leaving two sons John and Philip. All beneficiaries are of full age.

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

28 February	Received dividend of ksh 0.1 per share for the year ended 31 March 2017 on shares in Walters Ltd
31 March	Received proceeds of sale of government stock 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 the administration of the estate

[20

marks]

- (c) Explain any four causes of legacy failure in a will [4 marks]

QUESTION TWO

(a) Describe five legacies 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) Describe the powers of investments under the trustee act, laws of Kenya [5 marks]

(b) A, B, C and D are beneficiaries under a trust, and share the income in the proportions of 3:4:2:1 respectively. All beneficiaries are minors. From the following trial balance, extracted from the books of the trust as on 3rd October 2013 you are required to prepare a statement showing the beneficiaries accumulations accounts for the year and balance sheet as on 3rd October, 2013.

Trust trial balance		Shs. '000'	Shs. '000'
Trust Capital account			31,754
Beneficiaries maintenance account	A	196	
	B	217	
	C	154	
	D	146	
Trust income account			2,500
Accumulations income account			200
Trust capital investments (at cost)		31,754	
Accumulations a/c investment		3,520	
Beneficiaries accumulations accounts:			
At beginning of year	A		352
	B		528
	C		704
	D		1,936
Cash at Bank		<u>1,987</u>	_____

37,974

37,974

Required:

Beneficiaries accumulation account and balance sheet as at 3rd October 2013 [15 marks]

QUESTION FOUR

- (a) Explain two major types of a trust [4 marks]
- (b) Oloo died on March 31, 1990. In his will he provided the following:
- (i) His brother Otieno had to receive an annuity of sh. 300,000/= for the rest of his life
 - (ii) His sister Atieno 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 Oloo property was bequeathed to his niece Rehema who was manager of the trust

Oloo died on December 31, 1995. On that date, the estate of Oloo comprised the following assets and liabilities as valued for probate:

	Shs	Shs
Freehold house		10,000,000
Contents of house		2,000,000
Bank balances		1,000,000
Shs. 20,000, 6% AGIP stock (interest due march 31 & September 30)		
		<u>18,000,000</u>
		<u>31,000,000</u>
Less: balances of income due to Atieno including shs. 290,000	290,000	
150,000 accrued net interest on AGIP stock		
Annuity accrued due to Otieno, (net)	60,000	
Contractor for house repair	<u>50,000</u>	<u>400,000</u>
		<u>30,600,000</u>

The transactions of the trustees of Oloo were:

1996

BCOM 417

February 28, Payment of capital transfer tax of shs. 7, 448, 000 and interest of shs
15,000
March 31, Received interest, on AGIP stock.
April 1, Paid contractor shs. 50,000
Appropriated shs. 8,000,000 AGIP stock for payment of future up annuity
and realized balance of shs 12,000,000 stock for shs. 10,500,000
July 1, Paid professional expenses of administration shs. 227,000

Required:

Complete set of trust accounts

[16 marks]

-