BACHELOR OF COMMERCE/BACHELOR OF CO-OPERATIVE BUSINESS

HBA 2306: TRUST AND EXECUTORSHIP ACCOUNTING

PAPER ONE

Instructions to Candidates:

Answer Question **ONE** and any other **TWO** Questions

**Question One**

a) Explain the following terminologies as applied in Executorships’ Law and Accounts;
   i) Estate          (2 Marks)
   ii) Testate        (2 Marks)
   iii) Testatrix     (2 Marks)
   iv) Probate        (2 Marks)
   v) Codcil          (2 Marks)

b) Otii died intestate, his wife and eldest son Jalango having predeceased him. He was survived by Apalo and Beutah (the son and daughter) of his eldest son Jalango, and his own sons Martin and Njama. During his lifetime, he had made gifts of K.sh.1,000,000 to Njama and K.sh. 500,000 to Beutah. Otii left a net estate worth K.sh.5, 000,000.

   **Required:**
   Compute how the estate would be divided.  
   (10 Marks)

c) A will may be made orally has to meet certain criterion in order to be valid. Explain the **FIVE** criteria that are necessary for an oral to be valid.  
   (5 Marks)

d) Ahidi Kati died on 30\textsuperscript{th} June 2016. In his estate he had a K.sh. 2,000,000 6\% Treasury Stock. Interest was paid on 1\textsuperscript{st} March and 30\textsuperscript{th} September. The treasury Stock was quoted at 94 – 96.

   **Required:**
   Prepare Investment account for the year ended 30\textsuperscript{th} June 2016.  
   (5 Marks)
Question Two

a) Explain the differences between estates and trusts as used in trust and executorship accounts. (4 Marks)

b) Explain the distinction between income and capital as applied in the trust and executorship accounts. (6 Marks)

c) Explain any FIVE ways outlined by the Law in Protection of Property of a deceased Person. (5 Marks)

d) Mr. Kamau Tonui dies intestate and left behind a net estate worth K.sh. 36,000,00. His wife Mrs. Atieno Kamau died two weeks before him. His eldest son Martin died some years ago but his children Peter, Queen and Richard are still alive at the time of Kamau Tonui their grandfather’s death. The other children of Mr. Kamau Tonui who are still alive at the time of his death are; Bernard, Charity and Daniel.

**Required:**
Compute how his estate would be divided among the beneficiaries. (5 Marks)

Question Three

a) Mr. Richard Ruasa died intestate, leaving his two wives Lucia and Charity whom he married under a system of law which permits polygamy. A third wife Benata had predeceased him. Lucia has three children Peter, Lowe and Ricci. Benata had two children Shiko and Temu while Charity has no children. At the time of death, all his children were alive. The value of his personal and household effects was Sh.3, 500, 000 and the value of the net intestate estate was Sh.30, 150,000.

**Required:**
Prepare a clear statement to show how Mr. Richard Ruasa’s property would be devolved. (14 Marks)
b) Explain the meaning of the following terminologies as used in trust and executorship accounts.

   i) Ademption  
   ii) Lapse 
   iii) Uncertainty 
   iv) Disclaimer

(2 Marks)  (2 Marks)  (2 Marks)  (2 Marks)

QUESTION FOUR

Kombo died on 31st October 2015 and left his estate as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>K.sh.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household furniture</td>
<td>900,000</td>
</tr>
<tr>
<td>Cash in house</td>
<td>20,000</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>2,500,000</td>
</tr>
<tr>
<td>100,000 ordinary shares of Sh.20 each in KFC Ltd. Valued at Sh.30 per share.</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Investment at 5% on freehold property securities (interest thereon paid to 30 June 2015)</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Share in business of Kombo &amp; Co. valued at death</td>
<td>12,260,000</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>200,000</td>
</tr>
<tr>
<td>His liability amounted to</td>
<td>50,000</td>
</tr>
<tr>
<td>Funeral expenses</td>
<td>100,000</td>
</tr>
</tbody>
</table>
The following additional information is available:

1. A legacy of Sh.200, 000 was bequeathed to his executor and was paid on 28\textsuperscript{th} January 2016.
2. The residue of the estate was left in trust for his infant son.
3. The household furniture was sold on 15\textsuperscript{th} December 2015 for Sh.96, 000.
4. The shares were sold on the same date at Sh.29 ex div: a dividend being received on 25\textsuperscript{th} January 2016 at 10\% for the year ending 31\textsuperscript{st} December 2015.
5. Interest on investment in freehold property securities was received on 31\textsuperscript{st} December 2015, on which date the shares in the business of Kombo & Co. was received with interest at 5\% p.a.
6. The liabilities and funeral expenses were discharged on 20\textsuperscript{th} December 2015 on which date Sh.10, 000 of the debts due were received. The balance being unpaid at the date of preparation of the accounts.

\textbf{Required:}

(a) Journal entries to record the above transactions \hspace{1cm} (5 marks)
(b) The Estate cash book \hspace{1cm} (4 marks)
(c) The Estate income account \hspace{1cm} (3 marks)
(d) The Estate income account \hspace{1cm} (5 marks)
(e) Balance sheet of Kombo: deceased as at 31\textsuperscript{st} January 2016 \hspace{1cm} (3 marks)

(Total: 20 marks)

\textbf{Question Five}

Mali Mengi (aged 57) died in a road accident on 31\textsuperscript{st} December 2014. On 1\textsuperscript{st} May 2015 after his executors had paid all debts (except for the mortgage for his freehold house and debt to Mkopeshaji) testamentary and funeral expenses, his estate was ascertained as follows:
Sh. ‘000’

Cash in bank accounts 4,250
Freehold house 3,250
Toyota corolla 360
Nissan tena 220
Television and music system 105
Debt due from Pungufu 40
Furniture and personal effects 302
10,000 ordinary shares in Cement Ltd. 1,200
4,500 ordinary shares in Soko Mjinga Ltd. 370
Sh.800,000 10% Kenya stock 165

Income received to date

Interest 230
Dividend from Soko Mjinga Limited 37
267

Less: Mortgage interest paid 31\textsuperscript{st} March 2015 (120)

147

10,409
Extracts from Mali Mengi’s will left bequests as follows:

1. To each of my sons. Kikwajuni, Mnazini, and Mwembeni Sh.1 million.
2. To my wife Darajani, I leave my furniture, household and personal effects and the residue of my estate.
3. To my daughter Nanjale, my freehold house free of all duties. The house was subject to a mortgage of Sh.1 million carrying interest at 24% per annum payable 31st March and 30th September. Duty on the house amounts to Sh.130,000.
4. To my friend Kisitu, one of the motor cars owned by me at the time of my death he may choose.
5. To my friend Mlungu Sh.100,000.
6. To my sisters-in-law, Chemenji Sh.300,000
7. To my cousin, Nipa, my painting of Mausoleum by Kikuvu.
8. To my driver Ndeleva Sh.150,000
9. To my friend Shimba, my holding of Sh.800,000 110% Kenya stock, Mali Mengi owed Shimba Sh.100,000.
10. To my sister Malindi Sh.300,000
11. To my personal assistant, Sijapata half of my holdings in Cement Ltd.
12. To my niece Sinani, 4,000 ordinary shares from my holding of such shares in Cement Ltd.
13. To my nephew Shaibu Sh.200,000 payable out of my shares in Cement Ltd.
14. To my friend Mlungu Sh.50,000.
15. To my neighbour, Jirani Sh.50,000.
16. To my sister Dada, Sh.100,000 to establish a business.

Additional Information:

Mali Mengi executors ascertained the following beneficiaries were dead:

- Son Mnazini died in 2013 leaving a wife and two children.
- Son Mwembeni died in 2012 leaving a wife.
Sister Malindi died in 2010 leaving two daughters.

Driver, Ndeleva aged 60 died in the same accident as Mali Mengi. It was impossible to determine the order in which Mali Mengi and Ndeleva died.

The executors also advise you that:

(i). Kisitu chose the Toyota corolla
(ii). Mali Mengi sold his painting of the mausoleum using the proceeds to purchase his holding in SokoMjinga Ltd.
(iii). There is no such investment as 110% Kenya stock. The referees in the will to 110% is thought to be a typing error not previously noticed.
(iv). Jirani replied in writing that he did not want anything from Mali Mengi because Mali Mengi was a bad neighbour.
(v). Mali Mengi paid the Sh.100,000 during his life to his sister Dada to establish a business.

Required:
(a) A statement showing the distribution of Mali Mengi’s estate on 1st May 2015. (16 marks)
(b) A list of legacies to which the executors should not assent, briefly give reasons for the decision. (4 marks)

(Total: 20 marks)