



# TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

BUSINESS ADMINISTRATION

## UNIVERSITY EXAMINATION FOR:

BACHELOR OF BUSINESS ADMINISTRATION/BACHELOR OF COMMERCE

### ***BAC 4404 TRUST AND EXECUTORSHIP ACCOUNTS***

END OF SEMESTER EXAMINATION

**SERIES: DECEMBER 2016**

**TIME: 2 HOURS**

**DATE:**

#### **Instructions to Candidates**

You should have the following for this examination

*-Answer Booklet, examination pass and student ID*

This paper consists of FIVE questions. Attempt Question ONE and any other TWO questions from this paper.

**Do not write on the question paper.**

#### **QUESTION ONE (30 MARKS)**

a) Write short notes on

- |                         |          |
|-------------------------|----------|
| i. Testate              | (2marks) |
| ii. Intestate           | (2marks) |
| iii. Half secret trusts | (2marks) |
| iv. Implied trusts      | (2marks) |

b) Mr Kufa dies intestate, leaving two wives, Uhai and Uzima whom he married under a system of law which permits polygamy; a third wife Kifo had predeceased him . Uhai has children Asubuhi, Mchana and Jioni; Kifo had children Usiku and Adhuhuri; Uzima has no children. All the children are alive at the time of Mr Kufa's death. The value of his personal and household effects was Shs.700,000 and the value of the net residue of the state was Shs.2,800,000. How should his estate be divided? 10marks

c) Discuss circumstances that can lead to termination of appointment of a trustee (6marks)

d) Discuss three causes of failure of a legacy (6marks)

## QUESTION TWO ( 20 MARKS)

Andrew, a widower, died on 28 February 2014, and by his will executed ten years earlier made the following bequests:

- (a) 'To my brother George, my record collection.'
- (b) 'To my brother David, on his wedding day, Shs.50,000.'
- (c) 'To my dearest sister-in-law, my furniture and other personal chattels, not otherwise bequeathed.'
- (d) 'To my nephew Peter, a Mini Metro motor car.'
- (e) 'To my niece Sandra, Shs.200,000 payable out of my account with the Lukenya Building Society.'
- (f) 'To my nephew Timothy, Shs.100,000 in my deposit account at Trust Bank.'
- (g) 'To my cousin Patrick, my 1,000 ordinary shares in Kakuzi Ltd.'
- (h) 'To the All Saints Cathedral, Shs100,000 for the refurbishment of the choir stalls.'
- (i) 'To each of my sons Edward and Francis, Shs.1.5m.'
- (j) 'The residue of my estate on trust to provide an annual income for my daughters Barbara and Caroline, until they marry, and thereafter to my grandchildren in equal shares.'

You ascertain the following:

- i. George and Edward both predeceased Andrew. Each had two children living at the date of Andrew's death.
- ii. David is a confirmed bachelor. He declares that 'having failed to get me married while he was alive, Andrew will not bribe me into marriage now he is dead.'
- iii. Andrew had three sisters-in-law, all of whom he saw regularly prior to his death.
- iv. At the date of the will Andrew had owned a Datsun car, two years ago he replaced it with a Toyota; he has never owned a Mini Metro car.
- v. The Lukenya Building Society account had been closed on 30 September 20X3.
- vi. On 28 February 20X4 there was only Shs.72,000 in the deposit account at Trust Bank.
- vii. Kakuzi Ltd had converted each of its Shs.20 ordinary shares into 4 units of Shs.5 ordinary stock in October 20X2. Andrew owned exactly 4,000 units of Kakuzi Ltd ordinary stock at the date of his death.
- viii. The choir stalls at the All Saints Cathedral had been refurbished fully the previous autumn at which time Andrew had contributed Shs.120,000 to the Refurbishment Fund.
- ix. Both Andrew's daughters had married prior to his death and Andrew had a total of five grandchildren alive at 29 February 20X4, the eldest of whom was eight years of age.

- x. In addition to the assets specifically referred to above, Andrew's estate also included a freehold house together with cash and investments totalling Shs.7m, after payment of debts and funeral expenses.

**Required:**

In relation to each bequest in Andrew's will, state the type of legacy referred to and explains whether or not the executors should give their assent to the gift. (20 marks)

**QUESTION THREE ( 20 MARKS)**

When both parents of Alice and Beatrice died in a car accident, their rich uncle set up a trust to provide for them until they married. They were to share income equally. When Alice and Beatrice married the capital was to pass equally to the children of his nephews and nieces.

The uncle directed the trustees to invest only in investments authorized by the Trustees Act (Cap.167 of the Laws of Kenya) except:

- they could retain at their absolute discretion **10,000 shares of Sh.10 each in Updown Limited**, a private company;

They would not recall a loan of Sh.1, 200,000 to Alice, unless Alice wished to repay the whole or part of it; the loan was secured by a mortgage on Alice's leasehold house of which 15 years remain unexpired. After the trust had been in existence for 2 years, the balance sheet at 31 March 2013 was as follows:

Fixed interest investments	Sh. '000'	Sh. '000'
Sh.3 million 12% Kenya stock at cost		2,955
Cash at bank		<u>45</u>
		3,000
Water range investments:		
30,000 shares in BAT (K) Ltd.		3,000
Special range investments:		
15% mortgage loan to Alice	1,200	
10,000 shares of Sh.10 in Updown Ltd.	<u>150</u>	1,300
Income cash		<u>72</u>
		<u><u>7,422</u></u>
Trust capital:		
Fixed Interest Fund	3,000	
Wide Range Fund	3,000	
Special Range Fund	1,350	7,350
Life Tenants' Accounts		
Alice	36	
Beatrice	36	72
		<u><u>7,422</u></u>

Interest on the Kenya Stock was received on 30 June 2013 and 31 December 2013. The interest on the mortgage loan to Alice was due on 31 March each year. She had paid interest due on 31 March 2013, but negotiated with the trustees that she would not draw out any income from the trust in respect of the year 31 March 2014. Instead her share of the income would be used to pay the interest on the loan and to pay any repairs relating to the house; any balance remaining would be used to pay part of the loan.

The trust's other receipts and payments were as follows:

<b>2013</b>		Sh. '000'
April 15	Amount paid to life tenants	72
April 30	Dividend of 60% on the share of Updown Ltd. for the year ended 31 December 1995	<b>60</b>
May 28		24
June 29		3,600
July 5	Amount paid for repair for Alice's house	<b>360</b>
	Proceeds of sale of 30,000 shares in BAT (K) Ltd.	3,600
September 15	Purchase of 36,000 Sh.10 ordinary shares in Nation (Kenya) Ltd. a wider range investment.	<b>108</b>
	Receipt of interim dividend of 30% on the shares in Nation (K) Ltd., for the year to 31 December 2013.	<b>150</b>
December 14		360
December 31	Receipt of proceeds of sale 10,000 shares in Updown Ltd. Purchase of Sh. 450,000 nominal of 12% Kenya Stock at 90	
<b>2014</b>		
January 20	Paid to Beatrice in respect of income	150
March 31	Paid out of income administration expenses for the year	60

**Required**

- (a) Write up the trust cash account, the income account, the life tenants' account and the trust capital account for the year ended 31 March 2014. (12 marks)
- (b) Prepare the trust balance sheet as at 31 March 2014. (8 marks)

**QUESTION FOUR ( 20 MARKS)**

- a) Discuss the duties of trustees (4marks)
- b) With reference to the provisions of the law of succession:  
Define a will; and state the requirements of a valid will (6marks)
- c) Explain the three certainties of a valid trust (6marks)
- d) What are the remedies available to beneficiary for a breach of trust (4marks)

**QUESTION FIVE ( 20 MARKS)**

- a) Under what circumstances will a trust arrangement be terminated (12 marks)
- b) Explain the different accounts
  - i. Estate Account
  - ii. Estate Income
  - iii. Estate Cash Book
  - iv. Life Tenant Account (8marks)