



# TECHNICAL UNIVERSITY OF MOMBASA

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)**

- I. Write short notes on
  - a) Testate (2marks)
  - b) Intestate (2marks)
  - c) Half secret trusts (2marks)
  - d) Implied trusts (2marks)
  
- II. 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
  
- III. With reference to the provisions of the law of succession:

Define a will; and state the requirements of a valid will (6marks)

IV. Explain the three certainties of a valid trust (6marks)

### QUESTION TWO (20 MARKS)

Soko Pesa (aged 57) died in a road accident on 31 December 2014. On 1 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:

	<b>Sh. '000'</b>
Cash in bank accounts	4,250
Freehold house	3,250
Toyota corolla	360
Nissan sunny	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	230
Interest	<u>37</u>
Dividend from Soko Mjinga Limited	<u>267</u>
	<u>120</u>
Less: Mortgage interest paid 31 march 2015	<u>147</u>
	<b><u>10,409</u></b>

Extracts from Soko Pesa'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 31 March and 30 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 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, Soko Pesa 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.

Soko Pesa executors ascertained the following beneficiaries were dead:

- Son Mnazini died in 2013 leaving a wife and two children.
- Son Mwembeni died in 2014 leaving a wife.
- Sister Malindi died in 2012 leaving two daughters.
- Driver, Ndeleva aged 60 died in the same accident as Soko Pesa. It was impossible to determine the order in which Soko Pesa and Ndeleva died.

The executors also advise you that:

- (i). Kisitu chose the Toyota corolla
- (ii). Soko Pesa sold his painting of the mausoleum using the proceeds to purchase his holding in Soko Mjinga 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 Soko Pesa because Soko Pesa was a bad neighbour.
- (v). Soko Pesa paid the Sh.100,000 during his life to his sister Dada to establish a business.

**Required:**

A statement showing the distribution of Soko Pesa's estate on 1 May 2015.

**QUESTION THREE (20 MARKS)**

Aviha died in 1997 and left, by his will, the residue of his estate to his children, Reuben and Levi, in equal shares. The will directed that a child's share of the estate should be ascertained and discharged on reaching twenty one years of age. The trustees were empowered to maintain the children out of the income and to use their unfettered discretion in the choice of investments.

The trial balance extracted from the books of the trust as at 31 July 2003 was as follows:

	Sh. "000"	Sh. "000"
Investment on estate capital account		
20,000 shares of Sh.100 each in ABC Ltd.	2,200	
30,000 shares of Sh.100 each in Mapingo Ltd.	2,800	

Investment on accumulation accounts:		
1,000 shares of Sh.100 each in ABC Ltd.	110	
1,000 shares of Sh.100 each in Mapingo Ltd.	90	
Bank balances:		
On estate capital account	200	
On accumulation accounts	50	
Estate capital account		5,200
Accumulation accounts:		
Reuben		150
Levi		<u>100</u>
	<u>5,450</u>	<u>5,450</u>

Reuben attained the age of twenty one years on 31 October 2003, on which date the market prices of the investments were

ABC Ltd shares	Sh. 125
Mapingo Ltd. Shares	Sh. 100

Transactions in the three months to 31 October 2003 comprised:

1 August 2003: Receipt of dividend of sh. 5 each share in ABC ltd.

31 August 2003: Maintenance payment of sh 30,000 and sh.20,000 for Reuben and Levi respectively.

31 October 2003:The trustees re-valued all of the investments and discharged their liability to Reuben by the transfer to him of:

- One half of each of the investments held on capital accounts
- 3/5ths of each of the investments held on accumulation accounts.
- Cash for the balance due to him.

**Required:**

- (i) Estate capital account.
- (ii) Accumulation accounts.
- (iii) Distribution to Reuben account.

**QUESTION FOUR (20 MARKS)**

- a) Discuss the duties of trustees (4marks)
- b) What are the remedies available to beneficiary for a breach of trust (4marks)
  
- 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 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)