



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE IV

BACHELOR OF BUSINESS ADMINISTRATION IV

BAC 4404: EXECUTORSHIP AND TRUST ACCOUNTS

END OF SEMESTER EXAMINATION

**SERIES: AUGUST, 2024**

**TIME: 2 HOURS**

**DATE: AUGUST, 2024**

**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 (Compulsory) and any other TWO questions.

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

**Question One**

(a) Discuss the actions of the testator that can invalidate a will.

**(10 Marks)**

(b) Mwita died on 1<sup>st</sup> January, 2017. He left the residue of his estate to be held in trust for the benefit of his wife for her life and her death to be shared amongst his children Chacha, Marwa and Kiraka. His will gave no directions as to the investment of trust funds except for the house which should be retained for the use of his wife for life but allowing the trustee to dispose it as she wishes.

On 1<sup>st</sup> January 2017, his house was valued at sh. 1,300,000. He held 10,000, shares sh 20 in KBL valued at sh 42-48 and Sh 500,000 Nominal 12% Kenya Government Stock valued at 90-92 (interest payable on 30<sup>th</sup> June and 31<sup>st</sup> December) and sh 250,000 in the bank. His death and funeral expenses amounted to sh 30,000.

The trustees assumed office on 1<sup>st</sup> July, 2017, KBL shares were quoted at sh 48-50 and the 12% Kenya Government stock was valued at 88 -92.

During the year ended 30<sup>th</sup> June, 2018, the following transactions took place:

2017

- July 1 Received interest on the 12% Government stock
- July 31 Purchased 5,000 ordinary shares in Swara ltd. using all the available wider range funds
- August 20 Found a suitable buyer for the house at shs.3,000,000.
- September 30 Received interim dividend on the KBL at 10% for half year ended 30<sup>th</sup> June, 2017
- October 31 Purchased shs 1,000,000 9% Treasury stock at 96 cum- int (interest payable on 1<sup>st</sup> January and 1<sup>st</sup> July)

2018

- January 1 Received interest on the 12% government stock.
- January 1 Purchased 60,000 shs 20 each ordinary shares in Sungura Ltd at 125.
- January 1 Received interest on 9% treasury stock.
- March 31 Received final dividend on the KBL shares of 15%.

**Required:**

- i) Record the above transactions in the books of the Trustee for the year ended 30<sup>th</sup> June, 2018. **(12 Marks)**
- ii) Prepare a trust balance sheet as at 30<sup>th</sup> June, 2018. **(8 Marks)**

**Question Two**

Maiti died on 31<sup>st</sup> March, 2017. After discharging all debts (other than the principal of the mortgage), funeral expenses, testamentary expenses and capital transfer tax, the estate comprised the following:

	shs 000	shs 000
Balance at bank		30,200
Household furniture		6,000
Motor car		2,000
Stamp collection		12,000
Ornamental clocks		2,000
Country cottage		20,000
Dwelling house	30,000	
Less mortgage	<u>25,000</u>	5,000
10,000 9% British Government stock		<u>9,000</u>
		<u>86,200</u>

By his will he bequeathed the following legacies; all beneficiaries are of full age:

- 1) His stamp collection to his sister Dadangu:
- 2) His personal chattels, other than guns and fishing equipment to be divided equally between his children Saumu and Marebwa:

- 3) To his brother, Muyaye, his guns and fishing equipment:
- 4) To his son, Sika, his dwelling house, subject to the mortgage thereon.  
The mortgage is for shs 25,000,000 bearing interest at 12% payable on 31 March and 30 September. The interest due on 31 March had been paid prior to death. That due on 30 September has been paid by the estate.
- 5) To his three children shs 25,000,000 each;
- 6) To his daughter Saumu, his holding of shs 10,000,000 9% Kenya Government Infrastructure Bond (interest 3 April and 3 October)
- 7) To his sister, Dadangu shs 10,000,000.
- 8) The residue, if any, to be divided between the children.

The guns and fishing equipment had been stolen in February 2016 and the insurance proceeds of shs 1,500,000 were received on 30 March 2016. Dadangu was killed in an accident on 28 August 2014.

**Required:**

Prepare a Distribution Account on 31<sup>st</sup> May, 2017 showing the final distribution of the estate and giving amounts of the cheques to be drawn to the beneficiaries. **(20 Marks)**

**Question Three**

Malaika died on 31 October 2018 and left his estate as follows:-

	<b>Sh.</b>
Household furniture	45,000
Cash in house	1,000
Cash in bank	125,000
10,000 ordinary shares of sh. 10 each in BAT Kenya Limited, valued at sh. 15 per share	150,000
Investment at 6% p a on freehold property shares (Interest thereon paid to 30 June 2018)	200,000
Share in business of Malaika & Co. valued at date of death	613,200
Sundry debtors	10,000
His liabilities amounted to	2,500
Funeral expenses amounted to	5,000

A legacy of sh. 10,000 was bequeathed to his executor and was paid on 28 January 2019. the residue of the estate was left in trust of this infant son.

The household furniture was sold on 15<sup>th</sup> December 2016 for sh. 48,000. The shares in BAT were sold on the same date at sh. 14.50 ex.div, a dividend being received on 25 January 2019 at 10% for the year ending 31 December 2018. Interest on investment in freehold property shares was received on 31 December 2018, on which date the share in the business of Malaika & Co. was received with interest at 5 per cent per annum.

The liabilities and funeral expenses were discharged on 20 December 2018 on which date sh. 5,000 of the debtors due were received, the balance being unpaid at the date of preparation of the accounts.

**Required:**

- a) The Estate Cash Book. (5 Marks)  
 b) The Estate Capital Account. (7 Marks)  
 c) The Estate Income Account. (3Marks)  
 d) Balance Sheet of Maisha Mingi, deceased, as at 31 January 2019 (5 Marks)

#### Question Four

- (a) Discuss any **SEVEN** duties of a legal personal representative (7 Marks)  
 (b) Discuss causes of termination of a trust relationship. (5 Marks)  
 (c) What can cause a legacy to fail? (8 Marks)

#### Question Five

1. The executor, Walter Otiato, took an inventory of the assets of the testator and determined their fair value at the time of Matayo Omulema's death 26 June 2023 to be as follows:

	<b>Sh.</b>
Cash	46,000
Household and personal effects	310,000
Investments:	
4% Savings bond	21,000
Ordinary shares in Kazi ltd	44,000
Land (rental property)	65,000
Antiques	19,000
Dividend receivable	1,000
Interest receivable	1,000
Rent receivable	<u>4,000</u>
	<u>512,000</u>

2. The following valid claims were made against the estate and paid by the executor:

	<b>Sh.</b>
Funeral expenses	17,000
Executor charges	9,000
Medical expenses	11,000
Debts	5,000
Legal charges	50,000
Medical bills	226,500

Specific wills honoured:

Johnson - 9% Government stock

Njeri, spouse- Household and personal effects

General legacies paid:

	<b>Sh.</b>
Mwololo	35,000

Mwijabi	21,500
Okwiri	34,500
Transfer to Trustees:	
4% Savings bond	21,000
Ordinary shares in Kazi ltd	44,000
Cash	1,000,000

3. The following information was also provided concerning the estate:

**Sh.**

Assets subsequently discovered by the executor:	
Rental house	3,000,000
9% Government stock	4,000,000
Transactions for the period:	
Rent	7,000
Sale of antiques	210,000

**Required:**

A charge and discharge statement for the estate of Matayo Omulema as at 25 June 2024.

**(Total: 20 Marks)**