



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 411: TRUST AND EXECUTORSHIP

DATE: 22/10/2020

TIME: 8:30 – 10:30 AM

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## INSTRUCTIONS:

*Answer question one and any other two questions.*

*Show your working where necessary,*

### QUESTION ONE (30 MARKS) (COMPULSORY)

- a) Describe the nature of the following as fiduciary relationships:
- i) Executorship (2 marks)
  - ii) Trust (2 marks)
- b) With the use of an appropriate example in each case, explain the following terms in relation to testamentary dispositions.
- i) Principle of ademption (2 marks)
  - ii) Doctrine of lapse (2 marks)
  - iii) Abatement (2 marks)
- c) Mzee Maneno has invested in equity stocks. He is planning to place his wealth in a life trust. Describe four reasons and explain as to why you recommend an express private non discretionary trust. (4 marks)
- d) Describe the nature of the following in relation to property held in trust.
- i) Advancement (3 marks)
  - ii) Maintenance (3 marks)

e) Pikolo died in April 30<sup>th</sup> 2018 and left 10% 1 million loan stock, AB Ltd sh.10, 12 000 ordinary shares and XY Ltd sh.8, 10 000 ordinary shares .Interest on the stock is paid on 30<sup>th</sup> June and 31<sup>st</sup> December. On 20<sup>th</sup> July AB Ltd paid a dividend of 8% for the year ended 30<sup>th</sup> June .On 10<sup>th</sup> February 2019, XY Ltd paid a 10% dividend for the year ended on 31<sup>st</sup> December 2018. Loan interest for the first half of the year paid on the same date.

**Required:** Journal entries to record the above income (8 marks)

### QUESTION TWO (20 MARKS)

Mulemi died on 1<sup>st</sup> February 2018, leaving the following estate:

|  | Shs     |
|--|---------|
| Sh 60,0 00 , 10% government stock                  | 540,000 |
| 9,000 ordinary shares of sh 10 each in XYZ Company | 120,000 |
| 5,000 ordinary shares of sh10 each in A B C Ltd    | 50,000  |
| Building society deposit                           | 50,420  |
| Interest accrued to date                           | 390     |
| Balance at bank                                    | 50,330  |
| Personal items                                     | 42,000  |
| Freehold house                                     | 360,000 |
| Debts and funeral expenses                         | 12,750  |
| Liabilities  | 600     |

His will included the following legacies:

1. To his wife, Jane the freehold house, personal items , the ordinary shares in both companies ;XYZ and ABC and the sum of shs 10,000 from the bank account
2. To his daughter Minah, his land at junction T and the sum of shs 216,000.
3. To his sons Peter, James and Daniel the sum of shs 80,000 each.
4. To his sister carol the sum of shs 100,000
5. To his brother victor his holding of shs 50,000 saving bond.

His will also directed that the residue and any income arising during the administration of the estate should go to wife Jane.

The land at junction T. was sold for shs 150,000 in 2016 and the savings bonds encashed in 2017. His son James died in 2014 leaving his sons Brian and Joe. All beneficiaries are full age.

The following transactions took place during three months period ended 30<sup>th</sup> April 2018.

28<sup>th</sup> February Received dividends of shs 1.50 per share for the year ended 31<sup>st</sup> December 2017 on shares in XYZ company.

31<sup>st</sup> March Received proceeds of sale of Government stock of shs.650,000

30<sup>th</sup> April Withdrew balance of shs 51,570 from building society a/c including interest to date.

Debts and funeral expenses were paid on 1<sup>st</sup> February 2018.

**Required :**

- a) Estate capital account for the period ended 30<sup>th</sup> April 2018. (12 marks)
- b) Cash account (income and capital) for the period ended 30<sup>th</sup> April 2018. (8 marks)

**QUESTION THREE (20 MARKS)**

Charles T died on 2<sup>nd</sup> January 2000 and left the residue of his estate in a testamentary trust to be equally shared between his daughters, Rose and Mary. The will directed the trustee to maintain the children out of income and invest in viable projects. Each child's share should be ascertained and discharged on reaching the age of 18 years.

The following information was provided for the year ended 31<sup>st</sup> December 2005

|   | Sh'000 |
|---|--------|
| <b>Investments on Estate capital accounts</b> |        |
| 200 000 shares of sh.100 each in AB Ltd       | 24 000 |
| 300 000 shares of sh 100 each in XY Ltd       | 30 000 |
| <b>Investments in Accumulation Accounts</b>   |        |
| 10 000 shares of sh 100 each in AB Ltd        | 1 200  |
| 10 000 shares of sh 100 each in XY Ltd        | 1 000  |
| Bank balance: Estate capital account          | 3 500  |
| Accumulation account                          | 1 000  |
| Estate capital account                        | 56 200 |
| Accumulation Account: Rose                    | 1 800  |
| Mary  | 2 700  |

On 7th January 2006 received dividend of sh 8 per share on AB Ltd shares and sh 4 per share on XY Ltd shares. Maintenance payments on accumulation accounts were sh.800 000.

Rose attained the age of 18 years on 28<sup>th</sup> February 2006. On that date, the market value of shares were AB Ltd sh 130, XY sh.110. All the investments were revalued and the trustees discharged their liability to Rose through distribution to her of:

- i) ½ of each of the investment's held on capital account
- ii) 2/5 of each of the investment held on accumulation
- iii) Cash for the balance of the amount due to him.

**Required;**

- a) Estate capital account (3 marks)
- b) cash account (capital and income columns) (5 marks)
- c) Accumulation Accounts(in columnar form) (5 marks)
- d) Distribution Account(Rose) (7 marks)

**QUESTION FOUR (20 MARKS)**

Begele D. died intestate on April 30<sup>th</sup> 2016, and left a widow and his twins, Peter and John aged seven years.

His estate at death consisted of:

|   | Shs.    |
|---|---------|
| Sh 280000, 9% Government stock<br>(Interest 31 <sup>st</sup> January and 30 <sup>th</sup> September | 231,000 |
| Sh 240,000 2 ½ % savings bond<br>(interest 30 <sup>th</sup> April and 31 <sup>st</sup> October      | 200,000 |
| Building society deposit at 8%<br>(interest 31 <sup>st</sup> December and 30 <sup>th</sup> June)    | 45 000  |
| Accrued interest on society deposits  | 900     |
| Household furniture   | 30 000  |
| Cash in the bank  | 84 450  |
| Debts   | 2 000   |
| Funeral expenses  | 4,000   |

Interest on government stocks was received on due dates.

Milao had made no chargeable transfers during his life.

The following transactions took place during the year ended 31<sup>st</sup> March 2017:

**2016**

- 31 May Expenses of sh 110,500 were paid in respect of estate
- 30<sup>th</sup> June The building society deposit was repaid to personal representative ,together with interest due.
- 12 July sh 200 000, 9% government stock was sold ex-int; due to 1 August, the net proceeds amounting to sh 166,200.
- 10 August The debts and funeral expenses were paid.
- 30 September Bank debited the personal representative's account with interest amounting to sh 520 (chargeable to income).
- 2 October The household effects was given to the widow's statutory rights in the capital of the estate.
- 31 January 2017 Administration expenses of sh 4000 (all chargeable against capital ) were paid.

**Required: Prepare**

- a) The estate capital account for the year ended 31<sup>st</sup> March 2017. (7 marks)
- b) The estate cashbook for the year ended 31<sup>st</sup> march 2017. (8 marks)
- c) Statement of financial position as at 31<sup>st</sup> March 2017. (5 marks)

**QUESTION FIVE (20 MARKS)**

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

|   | Shs     |
|---|---------|
| Cash at the bank  | 126,000 |
| Household furniture   | 45 000  |
| 10,000 ordinary shares of sh.10 each in LM company,<br>Valued at sh.13 per share                | 130,000 |
| Investment at 5 per cent on freehold property shares<br>(Interest thereon paid to 30 June 2018) | 200,000 |
| Share in business of Timela and Co. valued at<br>date of death                                  | 613,200 |
| Sundry debtors  | 10,000  |

|                  |       |
|------------------|-------|
| Liabilities      | 2,500 |
| Funeral expenses | 5,000 |

The following information is also available:

A legacy of 10,000 was bequeathed to his executor and was paid on 28 January 2019. The residue of the estate was left in trust of his six year old son.

On 15<sup>th</sup> December 2018 the household furniture was sold for sh.50,000. The shares were sold on 19<sup>th</sup> December at sh. 12 ex.div, a dividend being received on 25<sup>th</sup> January 2019 at 8% for the year ending 31<sup>st</sup> December 2018. Interest on investment in freehold property shares was received on 31<sup>st</sup> December 2018, on which date the share in the business of Timela Co. was received with interest at 7% per annum.

The liabilities and funeral expenses were discharged on 20 December 2018 on which date sh 7 ,000 of the debtors due were received, the balance being unpaid at the date of preparation of the accounts.

**Required:**

- a) The Estate Capital Account (12 marks)
- b) The Estate cash book (8 marks)