KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 411: TRUST AND EXECUTORSHIP ACCOUNTS

DATE: Thursday 23rd September 2017 **TIME: 8.00a.m -10.00a.m**

INSTRUCTIONS: ANSWER ALL QUESTIONS

Question One

a) Explain any **two** types of succession contained in the Law of Succession Act (Cap 160). (4 Marks)

b) Explain how the distribution of Estate will occur in a situation under polygamous marriage where the intestate leaves one surviving spouse, but no child or children. (4 Marks)

c) Mr Otieno dies intestate, leaving two wives, Alice and Catherine whom he married under a system of law which permits polygamy; a third wife Beatrice had predeceased him. Alice has children Paul, Quinter and Raphael; Beatrice had children Susan and Timothy; Catherine had no children. All the children are alive at the time of Mr Otieno's death. The value of his personal and household effects was Shs.1, 400,000 and the value of the net residue of the estate was Shs.5, 600,000. How should his estate be divided? (10 Marks)

Total 20 Marks

Question Two

a) Highlight any four types of legacies (4 Marks)

b) Raphael (aged 64) died in a road accident on 31 December 2015. On 1 May 2016 after his executors had paid all his debts, (except for the mortgage on his freehold house referred to below) testamentary and funeral expenses, his estate was ascertained as follows:

	Kshs'000	Kshs'000
Cash on bank accounts		17,000
Freehold house		13,000
Jaguar motor car		1,440
Mercedes motor car		2,520

Stamp collection		1,700
Debt due from Walace		240
Furniture and other personal effects		2,690
20,000 Ordinary Kshs.10 shares in EABL Limited		2,400
9,000 Ordinary Kshs.10 shares in Nation Media Group Ltd		1,480
Ksh.1, 600,000 5% Kenya Stock		470
Income received to date:		
Bank interest	460	
Dividend from Nation Media Group Ltd	74	
	534	
Less: Mortgage interest paid 31 March 2016	240	
		294

Extracts from Raphael's will left bequests as follows:

(a) To my wife Alice, I leave my furniture and other personal effects and the residue of my estate, after payment of my debts and expenses.

(b) To each of my sons, Danford, Jimmy and Stephen, Kshs.2M.

(c) To my unmarried daughter, Chantel, my freehold house subject to any mortgage thereon. The house was subject to a mortgage of Kshs.4m. carrying interest at 12% per annum payable 31 March and 30 September.

(d) To my friend Tony, whichever of the motor cars owned by me at the time of my death he may choose.

(e) To my good friend Gerald, Kshs.200, 000.

(f) To my friend Brian, some of my furniture.

(g) To my cousin Samantha, my painting of the "KICC" by Ndichu.

(h) To my friend Dennis, Kshs.400, 000 on condition he gives up the bad habit of smoking.

(i) To my brother Joseph, 2,000 shares in Kakuzi Ltd.

(j) To my sister Elizabeth, Kshs.1, 200,000.

(k) To my secretary Betty, half of my holdings of Ordinary Kshs.10 shares in EABL Ltd.

(l) To my cousin Miriam, my holding of Kshs.1,600,000 5 $^{1}/_{2}$% Kenya Stock and my holding of shares in Cassava Ltd.'

(m) To my chauffeur, Malcolm, Kshs.600, 000.

(n) To my gardener Jeremiah, Kshs.300, 000 if still in my employment at the time of my death.

(o) To my friend Eric, my 12,000 Ordinary shares in Printers Ltd.

(p) To my nephew Frank, 8,000 Ordinary Kshs.10 shares from my holding of such shares in EABL Ltd.

(q) To my niece Tracey, Kshs.400, 000 payable out of my holding of Kshs.10 Ordinary shares in EABL Ltd.

(r) To my friend Timothy, Kshs.300,000

(s) To my cousin Hazel, the Kshs.240, 000 which Walace owes me.

(t) To St. Paul's Church Kshs.100, 000 to provide a stained glass window in memory of my mother.

(u) To my good friend Gerald Kshs.300, 000 for looking after my house for many years when I went on holiday.'

Raphael's executors ascertained that the following beneficiaries were dead:

- Son Jimmy, died 2009, leaving a wife and two children.
- Son Stephen died 2008, leaving a wife.
- Sister Elizabeth, died 2010, leaving a husband and two daughters.
- Chauffeur Malcolm (aged 60) died in the same accident as Raphael. It was impossible to determine the order in which Raphael and Malcolm died.

The executors also advise you that:

- Tony elected to have the Mercedes car.
- Raphael sold the Ndichu painting in 2007 for Kshs.6m.
- Dennis replied in a letter to the executors that he had no intention of giving up smoking.
- Raphael owned no shares in Kakuzi Ltd.
- There is no such investment as 5 $^{1}/_{2}$% Kenya Stock. The reference in Raphael's will to 5 $^{1}/_{2}$% is thought to be a typing error not previously noticed.
- Raphael sold his shares in Cassava Ltd. using the proceeds of Kshs.1,800,000 to purchase his shareholding in EABL Ltd.
- The gardener Jeremiah retired in June 2010.
- In early 2000, Printer Ltd. merged with Nation Ltd. to form a new company Nation Media Group Ltd. and Raphael received 9,000 new Ordinary shares in Nation Media Group Ltd. in exchange for his 12,000 Ordinary shares in Printers Ltd.
- Timothy replied in a letter that he 'didn't' want anything from Raphael's estate because actually he hated the sight of him.
- In 2009 Raphael had paid Kshs.250, 000 for a stained glass window in St. Paul's church in memory of his mother.
- His daughter Chantel had married in April 2009.
- Gerald claimed both legacies.

Required:

(a) A statement showing the distribution of Robin's estate on 1st May 2016. (10 Marks)

(b) A list of legacies to which the executors should not assent, briefly explaining the reason why the legacy is invalidated. (6 Marks)

Total 20 Marks

Question Three

Kimani and Mayaka are life tenants of a trust set up by their uncle. The trustees have investment powers restricted to those contained in the Trustee Act (Chapter 167 of the Laws of Kenya) except they could hold at their absolute discretion 300,000 shares of Sh.10 each in Kilimanjaro Enterprises Limited, a horticultural exporting company run by the uncle..
On 31 March 2015, the balance sheet of the trust was as follows:

	Sh.'000'	Sh.'000'
Fixed interest investments		
Sh.2 million 10% Kenya stock 2016 (cost)	2,000	
Sh.2 million 9% Kenya stock 2015 (cost)	1,800	
Cash at bank	200	4,000
Wider range investments		
40,000 shares of Sh.100 in E.A. Breweries Ltd (cost)		4,000
Special range investments		
300,000 shares in Kilimanjaro Enterprises Ltd. (cost)		3,000
		11,000
Trust capital		
Fixed interest fund		4,000
Wider range fund		4,000
Special range fund		3,000
		11,000

In the year to 31 March 2016, the following occurred:

2015

30 June — Interest for the year ended 30 June 2015 was received on 10% Kenya stock. School fees for Kimani and Mayaka were paid immediately using the whole amount received.

30 September — A final dividend of 75% for the year ended 30 June 2015 was received from E.A. Breweries Ltd. (payout rate 10%).

30 November — The E.A. Breweries Ltd. shares were sold at Sh.110 each. At the same time, a satisfactory buyer was found for the 300,000 shares in Kilimanjaro Enterprises Limited – these shares were sold for Sh.15 each. Some high yielding 12%Kenya stock 2017 was available at par on this date. It was decided to use all the wide range cash available to

purchase this stock and designate it as a wider range investment.

31 December — Interest was received for the year on the 9% Kenya stock and Sh.42, 000 interest was received on the fixed interest cash at bank.

2016

28 February — 61,250 Sh.10 ordinary shares in ICDI Limited were purchased for Sh.40 per share using the fixed interest cash and a suitable switch was made to ensure adherence to the requirements of the Trustee Act. The market value of the 12% Kenya stock 2017 on this date was still par.

31 March — All remaining income cash was paid across to the life tenants, after trust administration expenses of Sh.120, 000 were paid for the year.

Required

(a) Write up the trust cash account, the income account (showing payments to beneficiaries in this account) and the trust capital account for the year ended 31 March 2016. 12 Marks

(b) Prepare the trust Statement of Financial Position as at 31 March 2016. 8 Marks

Total 20 Marks

Question Four

i) Highlight any four types of trusts (4 Marks)
ii) Outline two condition that must exist for a trust to be valid (4 Marks)
iii) State any four categories of Investments as outlined by Trustee Act (cap 167) of Laws of Kenya (2 Marks)

Total 10 Marks