

MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAINCAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

THIRDYEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE OF

BACHELOR OF COMMERCE

DATE: 25TH APRIL 2016

COURSE CODE: HBA 2306

COURSE TITLE: TRUST AND EXECUTORSHIP ACCOUNTING TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 2 printed pages. Please turn over



QUESTION ONE

- a) Identify and explain any four types of legacy (8marks)
- b) Steve died intestate leaving two wives Naomi and Sylvia. Linet his second wife had predeceased him leaving two children Alpha and Beta. Naomi has three surviving children Billy June and Ken. Sylvia has no children

Steve estate consists of :

1. Personal effects	sh620,000
2. Household effects	sh1,200,000
3. Motor vehicle	sh800,000
4. Bank balance	sh5,000,000

- Show how the estate will be distributed (12marks)
- c) Discuss five duties of a trustee as per the trustees act 10marks

QUESTION TWO

MpitaNjia (aged 57) died in a road accident on 31 December 2013. On 1 May 2014 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:

	Sh.'000'
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 Kona Mbaya Ltd.	370
Income received to date	230
Interest	<u>37</u>
Dividend from Kona Mbaya Limited	<u>267</u>
Less: Mortgage interest paid 31 March 2013	<u>120</u>
	<u>147</u>
	<u>10,409</u>

Extracts from MpitaNjia's will left bequests as follows:

1. To each of my sons. MpodaKimeto and Mwadimu 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 cousins, Nipa my painting of Mausoleum by Kikuvu.
8. To my driver Mpole sh.150,000.
9. To my sister Malindi sh.300,00.

MpitaNjia executors ascertained the following beneficiaries were dead:

- Son Kimeto died in 2011 leaving a wife and two children
- Son Mwadimu died in 2012 leaving a wife
- Sister Malindi died in 2010 leaving two daughters
- Driver, Mpole aged 60 died in the same accident as MpitaNjia. It was impossible to determine the order in which MpitaNjia and Mpole died.

The executors also advise you that:

- i. Kisitu chose the Toyota corolla
- ii. MpitaNjia sold his painting of the mausoleum using the proceeds to purchase his holding in Kona Mbaya Ltd.

Required: prepare a distribution statement

(20marks)

QUESTION THREE

The trust deed of kipara restricted the trust to invest in authorized securities but permitted them to retain a piece of land until the tenant died when it was to be sold and proceeds invested

The summarized balance sheet of the trust as at 31 December 2013 was as follows:

Sh1, 000,000 8% Kenya government stock	1,000,000
Sh 5,000,000 10% savings stock	2,500,000
Freehold land	<u>600,000</u>
<u>4,100,000</u>	
Capital fund	<u>4,100,000</u>

On January 1 2014, the trustees decided to avail themselves of the powers and to reinvest half of the shares in wider range securities

The following transactions took place up to 31 December 2014

Jan 1 , sold Sh2, 000,000 8% Kenya government stock for sh 970,000 and reinvested the whole amount in 10,000 ordinary shares of sh10 each in firestone(EA)ltd.

April 15 paid sh400,000 for purchase of ordinary shares of sh1 per share in Portland cement ltd

April 30 paid sh 500,000 for purchase of 7% housing development bond

September 30 received sh 4,000,000 on the sale of freehold land.

All income was distributed as received

Required

- a) Trust capital account (8marks)
- b) Trust balance sheet (8marks)
- c) cash account (4marks)

QUESTION FOUR

- a) Write explanatory notes on the following terms as used in the law of succession
 - i) Public trust (2marks)
 - ii) Probate (2marks)
 - iii) Certainty of words (2marks)
 - iv) Partial testacy (2marks)
- b) Explain any four reasons that will lead to failure of testamentary disposition (12marks)