



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 313: TRUST AND EXECUTORSHIP ACCOUNTING

Date: 7th June, 2017

Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE.
- All questions carry equal marks
- Show all your workings



QUESTION ONE

- a) On his death, Mr. Were owned three cars, a BMW, a Nissan Pick-up and a Mercedes-Benz. He had three plots at Karen, Kahawa and Sultan Hamud. Besides, he held shares at KBL, Unga and Sasini. He had Shs. 2.5m in KCB.

His will states among other things:

- i) I leave my car to my friend Omondi
- ii) I leave my car to my son x whichever he may choose.
- iii) I leave shs. 100,000 to my wife
- iv) I leave my plot in Karen to my closest friend.
- v) I leave shs. 100,000 to my sister payable from my holdings of such shares in Cooperative Bank.

Required;

- a) Explain how you would deal with the above gifts. (5 marks)
- b) Discuss any three conditions for a written will to be valid. (6 marks)
- c) Discuss any five purposes for the formation of Trusts. (6.5 marks)

QUESTION TWO

Benjamin died on 1st January 2015 and by his will left his house to his wife for her life, and on her death, to his eldest son Ethel absolutely. He left the residue of his estate to be held on trust for the benefit of his wife for her life, and on her death, to be shared among his other children:

Martha, Anne, Peter and Kevin.

His will gave no direction as to the investment of trust funds.

On 1st January 2016 his house was valued at sh. 13 million. He held 100,000 shares in EABL valued at sh. 42 – 48 and sh. 5,000,000 nominal 12% Kenya Government bond valued at 90 – 92. His bank balance was shs. 2,500,000 and his debts and funeral expenses amounted to shs. 300,000.

On 1st July 2010, EABL shares were quoted at shs. 48-50 and the 12% Kenya Government Bond was quoted at shs. 88-92.

Required;

Prepare the estate capital account and balance sheet on July 1st 2016.

(17.5marks)

QUESTION THREE

- a) Explain the origins of trust and executorship. (8 marks)
- b) Discuss any three ways in which trusts can be created. (6 marks)
- c) Outline the doctrine of presumption of survivorship. (3.5 marks)

QUESTION FOUR

Kenani died together with his wife on a fire accident in their house on April 30, 2016. After paying all the funeral and necessary liabilities, his estate comprised of the following assets:

	Shs. (000)
Car, Pajero Mini	1,000
Car, Peugeot 504	600
Furniture	300
Farm at Eden	1,200
Plot at Maringo	250
Shs. 200,000 5% Government stock	15,000
Balance at bank	<u>6,000</u>
	<u>24,350</u>

His will provided for the following legacies;

- a) My Nephew Joshua, my plot at Maringo
- b) My friend Noah, my car.
- c) My sons Kshs. 1m each.
- d) My gardener Amos Kshs. 150,000 if still in my employment.
- e) My brother Moses, my farm at Eden.
- f) My neighbours, Ali, Ben and Caleb Kshs. 250,000 each.
- g) My church Kshs. 5, 000, 000 to set up pastors' residence.
- h) My friend Abraham, my house at Karen and Kshs. 500,000.
- i) My grandson Meshack, residue absolutely.

You ascertain the following;

- a) That Kenani had three sons, Abel, Cain and Seth. Abel and Seth had predeceased him, Seth left behind a son Meshack. Abel had no child.
- b) During his life, Kenani had since set up pastors' residence.
- c) Amos retired on 31st December 2015.
- d) Ali and Caleb both predeceased Kenani.

Required:

- a) Estate Capital Account. (5 marks)
- b) Estate distribution Account. (5 marks)
- c) Explain why the executors may decline to assent to some of the legacies. (5 marks)
- d) Did Kenani's wife predecease him? Explain. (2.5 marks)

QUESTION FIVE

Mr. Baraka died in 2008 leaving two infants Albert and Ben. His will directed that a child's share be ascertained and discharged upon reaching 18 years. Albert attained 18 years on 29th August 2012. The balance sheet of Mr. Baraka's Estate as at 30th June 2012 stood as follows;

Investment:

Investments on capital accounts:	Kshs. '000'	kshs. '000'
100,000 shares in Nafaka Ltd of sh 10 each	1,200	
150,000 shares in Mazao Ltd of sh 10 each	1,500	
Investments in accumulation account.		
5,000 shares in Nafaka Ltd of sh. 10 each	55	
5,000 shares in Mazao Ltd of sh. 10 each	45	
Bank capital	100	
Accumulations	25	
		2,925
Financed by:		
Estate capital		2,800
Accumulation a/c Albert		75
Ben		50
		2,925

Additional information;

1. The value of share on 29 August 2012 was sh. 13.50 in Nafaka Ltd, and sh. 12.00 in Mazao Ltd.
2. On 30 July 2012, 5% dividends were paid by Nafaka Ltd.

3. On 31st July 2012, maintenance payments were made: Albert sh 15,000 and Ben shs. 10,000.
4. Investments were revalued on 31st March 2012 and Albert's share was discharged as follows:
- 50% of each investment held in the capital account.
 - 60% Of investments in accumulation a/c.
 - Cash for the balance.

Required;

- a) Compute gain/loss on revaluation. (7 marks)
- b) Capital account. (5 marks)
- c) Accumulation account. (5.5 marks)

QUESTION SIX

- a) Distinguish between pre death and post death interest and dividends and state their accounting treatment. (5 marks)
- b) Discuss any three failures of gift under will. (6 marks)
- c) Mr. Boda died in testate, leaving two wives Alice and Chebet whom he married under a system which permits polygamy, a third wife Bertha had pre deceased him. Alice had children Peter, Quinta and Rubi; Bertha left children Seth and Ted; Chebet has no child. All the children are alive at the of Mr. Boda's death. The value of his personal effects was shs. 700,000 and the value of the residue of his net estate was shs. 2,800,000. How should his estate be divided? (7.5 marks)