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UNIVERSITY EXAMINATIONS 2023/2024

THIRD YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF COMMERCE

BFC 3378: TRUST AND EXECUTORSHIPS ACCOUNTING

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) "If you bear an irresponsible son, make a will. Otherwise, you are safe". Discuss. (8 Marks)
- b) In the context of the Law of Trust Act, briefly discuss the following terms:
- i. Implied Trust (3 Marks)
 - ii. Protective Trust (3 Marks)
 - iii. Statutory Trust (3 Marks)
- c) Simon Makonde died on 1st January, 2018 leaving the following estate:

Local Sacco deposits	480,660
Interest accrued on Sacco deposits to date	1,860
6000 ordinary purchases of shs.20 each in ABC Ltd	105,000



MUST is ISO 9001:2015 and



ISO/IEC 27001:2013 CERTIFIED

2000 ordinary shares of Shs. 20 each in Maji Ltd	98,000
Balance at Bank	562,520
Personal and Household effects	30,000
Shs. 1,000,000 12% Government stocks	960,000
Freehold property	500,000

Debts due to be paid by Simon Makonde amounted to shs. 12,800. The funeral expenses incurred upon his death amounted to Shs. 68,400.

Simon Makonde had in his will made the following requests:

- 1) To my wife Ann, household and personal effects and sum of sh. 100,000
- 2) To my Sons Arnod and Peter, the sum of shs 50,000 each.
- 3) To my brother Jonathan, my holding of 1000 ordinary shares in Maji Ltd.
- 4) To my Sister Josephine, the sum of shs 40,000
- 5) To my daughter Jane, the sum of shs 70,000

The following transaction took place during the four months to April: -

Date

31st January 2018	Received dividend of 10% for the year ended 31st December 2007 on shares in ABC Ltd and half years interest on the 12% Government stocks to date
1st February, 2018	Received the sums of shs. 495,000, shs 110,000 and shs. 950,000 being net proceed from the sale of Freehold property, shares in ABC Ltd and 12% Government stocks respectively.
2nd March, 2018	Paid Capital Tax amounting to shs 104,000
31st March, 2018	Withdrew balance of shs 490,560 from local Sacco deposits including interest accrued on Sacco deposits to date.



30th April 2018 Paid administration expenses of shs 26,040 (all capital) together with the debts due and funeral expenses.

You ascertain the following:

- Simon Mokende was survived by wife Ann, his sons Arnod, daughter Jane and his brother Jonathan.
- Peter and Josephine died in a road accident in May 2017.
- Peter was survived by his widow Beth with whom he had no children.
- Josephine was survived by his two sons, Steve and Joe.

All the legacies were distributed on 30th April, 2018

- i) Estate Capital Account (6 Marks)
- ii) Estate Cash Book (4 Marks)
- iii) Balance sheet extract (3 Marks)

QUESTION TWO (20 MARKS)

Moses Waigwa died as a result of a motor accident on 5 September 2006. His estate at death after payment of debts, funeral and other expenses consisted of the following assets.

Freehold house	900,000
Furniture and other personal effects	120,000
Ornamental collection	12,000
12,000 ordinary shares in Kenya Company Ltd.	210,000
Sh. 100,000 nominal 10% Treasury stock 2008	92,000
Amount due from motor insurance company,	114,000
Debt due from Paul	50,000
Cash in hand and balance a bank	262,000



Through his will executed several years earlier, Moses Waigwa forgave his brother in-law, Paul, all debts at the date of his death and made the following bequests:

- 1 To my wife Grace, my freehold house, furniture and other personal effects not otherwise bequeathed.
- 2 To my brother William, the sum of Sh. 100,000
- 3 To my good friend Peter Mwaro, the sum sh.20,000
- 4 To each of my sons Maina and Kamau, the sum of Sh. 2,000,000
- 5 To my daughter Ziporah, my holding of Sh. 100,000 nominal 10¹/₄% Treasury stock 2008 and Sh. 40,000 to my nephew Richard payable out of my holding of 9% Treasury stock 2007.
- 6 To my niece Sarah, my holding of 3,000 shares(ordinary) in Kenya Company Ltd.
- 7 To my cousin Kenneth, my motor car.
- 8 To my grandson Jonathan, my ornamental collection
- 9 To my neighbour Peter Mwaro, the sum of Sh. 10,000.
- 10 The residue of my estate to trustees, to provide an income for my wife and thereafter to my grandchildren in equal shares.

You further ascertain the following:

- William and Kamau both predeceased Moses Waigwa, but their respective children Richard and Jonathan both survived him.
- Peter Mwaro, a life long friend of Moses Waigwa, had purchased the house neighbouring that of Moses Waigwa and Grace shortly before the execution of the will.
- There is no such investment as 10¹/₄%. Treasury stock 2008. The date referred to in Moses Waigwa's will is believed to be a typing error not previously noticed.
- Moses Waigwa's had sold his entire holding of 9% Treasury stock 2007 in November 2005.
- Moses Waigwa's car was totally wrecked in the accident of 5 September 2006, the sum of Sh. 114,000 paid by the insurance company represents the agreed value of the motor vehicle at that date.
- In addition to Kamau's son, Jonathan, there were five other grandchildren living at the date of Moses Waigwa's death.
- The Kenya Company Ltd. Changed the par value of the shares from Sh. 10 to Sh. 5 Prior to the death of Moses Waigwa. However, this had no significant effect on the market price of the shares.



Required:

- a) A statement showing the distribution of Moses Waigwat s estate (10 Marks)
(Ignore all income and interest on legacies).
- b) Explain the treatment of the bequests to the following beneficiaries:
- i. Peter Mwaro (2 Marks)
 - ii. Zipporah (2 Marks)
 - iii. Richard (2 Marks)
 - iv. Sarah (2 Marks)
 - v. Kenneth (2 Marks)

QUESTION THREE (20 MARKS)

- a) State the fundamental requirements of a valid oral will (6 Marks)
- b) Briefly explain the various types of legacies that may be bequeathed by way of a will. (4 Marks)
- c) Ambrose Shamalla, a widower, died instant on I January 2019. He is survived by his two sons Kadenge and Muramba and a daughter Anunda. His other daughter, Nasimiyu predeceased him. Nasimiyu is survived by a son, Misati and a daughter Nafula.

During his lifetime Ambrose Shamala had advanced his two sons Sh.500,000 each to enable them commence and run a hardware business. Ambrose Shamala has also advanced Sh.400,000 to Nafula to purchase equipment for use in her hair salon business.

The net estate of Ambrose Shamalla after payment of all the expenses and liabilities on 31 May 2019 was Sh. 9,000,000.

Required:

A distribution statement showing how the Deceased's estate would devolve. (10 Marks)

QUESTION FOUR (20 MARKS)

Kahari and Lagaga, two brothers are the life tenants of trust set up by their rich uncle, Maundu. Maundu had never married. He set up the Maundu Trust with the following terms:

- I. The trustees were to have unrestricted powers of investment.
- II. The trustees were to share any income that arose equally between Kahari and Lagaga



III. Kahari and Lagaga were to receive income until their deaths. On the death of either of the life tenants one of the capital passes absolutely to Nzau, Maundu's younger brother.

The balance sheet of the trust was as follows on 30 September 2018:

Capital assets:	5,400
House in Milimani, Nairobi	8,820
Sh.9 million 12% Kenya Treasury Stock	3,870
60,000 Sh. 10 ordinary shares in Uchumi Limited	2,040
	<u>1,410</u>
24,000 Sh. 10 ordinary shares in Media Group Ltd.	120
	21,660
Cash at bank	Capital
	Income
	21 ,540
	120
Trust capital	21 ,660
Trust income	

In the year ended 30 September 2019, the following transaction took place:

1. Interest on the 12% Kenya Treasury Stock was received on the due dates, 31 December 2019.
2. The trustees sold Sh.3 million 12% Kenya Treasury Stock on 1 November 2018 to enable them purchase a further 50,000 Sh.10 ordinary shares in Uchumi Limited as Sh.69 per share. The 12% Kenya Treasury Stock was sold at a price of 88. The shares in Uchumi Limited were purchased on 1 December 2018.
3. Kahari died on 31 January 2019. Before he died, he had been living in the house in Milimani, Nairobi, owned by the trust, paying rent of Sh.40,000 per month, quarterly in arrears. He had paid 3 month's rent on 31 October 2018, but had not paid the rent due on 31 January 2019: this was to be offset against claims on the Trust The house remained empty from 1 February 2019 onwards.
4. On 31 January 2019, the market value of the assets in the trust were as follows:

House in Milimani, Nairobi	Sh.9,600,000
12% Kenya Treasury Stock	90



Sh. 10 ordinary shares in Uchumi Limited Sh.75

75 Sh. 10 ordinary shares in Media Group Sh.100

Ltd.

5. Dividends of Sh.7.50 per share on the ordinary share in Media Group Limited in respect of the year ended 31 December 2018 were received on 31 March 2019. Dividends of Sh.6 per share on the ordinary shares in Uchumi Limited in respect of the year ended 31 March 2019 were received on 31 June 2019.

6. The Trustees paid to the executors of Kahari the amount due on 1 September 2019. On the same day they paid the income due to Lagaga and distributed to Nzau the house in Milimani, Nairobi, 39,000 Sh.10 ordinary shares in Uchumi Limited and the remainder in cash. On 1 September 2019, the values of the assets were the same as on 31 January 2019.

Required:

- a) Cash book and the Estate Capital Account for the year ended 30 September 2019. (7 Marks)
- b) Show how all available income will be divided between Kahari, Lagaga and Nzau. Apportionment should be made on the basis of months (3 Marks)
- c) The distribution account for Nzau and the Trust Balance Sheet as at 30 September 2019. The trustees incorporated revaluation into the books of the Trust. (7 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the arguments for and against the legislation of Matrimonial Properties Act (2012) and the Marriage and Divorce Act (2018) in relation to Section 42 of Succession Act Cap 160 Laws of Kenya. (8 Marks)
- b) Discuss various ways through which a trustee can be appointed and how such a trust can be terminated. (6 Marks)
- c) State and explain three ways of revoking a will. (6 Marks)

