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University Examinations 2024/2025

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

BFC 3378: TRUST AND EXECUTORSHIPS ACCOUNTING

DATE: JANUARY 2025

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.
(6 marks)
- b) Citing a customary law with which you are familiar, discuss how intestacy was handled.
(4 marks)
- c) Mali Mengi (aged 57) died in a road accident on 31 December 1999. On 1 May 2000 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

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Debt due from Pungufu	40
Furniture and personal effects	302
10,000 ordinary shares in Cement Ltd.	1200
4,500 ordinary shares in Soko Mjinga Ltd.	370
Sh.800,000 10% Kenya stock	165
Income received to date	
	230
Interest	<u>37</u>
Dividend from Soko Mjinga Limited	<u>267</u>
	<u>120</u>
	<u>147</u>
Less: Mortgage interest paid 31 march 2000	<u>10,409</u>

Extracts from Mali Mengi's will left bequests as follows:

1. To each of my sons. Kikwajuni, Mnazini, and Mwembeni 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 cousin. Nipa. my painting of Mausoleum by Kikuvu.
8. To my driver Ndeleva Sh. 150,000

9. To my friend Shimba, my holding of Sh.800,000 110% Kenya stock, Mali Mengi owed Shimba Sh.100,000.
10. To my sister Malindi Sh.300,000
11. To my personal assistant, Sijapata half of my holdings in Cement Ltd.
12. To my niece Sinani, 4,000 ordinary shares from my holding of such shares in Cement Ltd.
13. To my nephew Shaibu Sh.200,000 payable out of my shares in Cement Ltd.
14. To my friend Mlungu Sh.50,000.
15. To my neighbor, Jirani sh.50,000
16. To my sister Dada, sh. 100,000 to establish a business

Mali Mengi executors ascertained the following beneficiaries were dead:

- Son Mnazini died in 1997 leaving a wife and two children.
- Son Mwembeni died in 1998 leaving a wife.
- Sister Malindi died In 1996 leaving two daughters.
- Driver, Ndeleva aged 60 died in the same accident as Mali Mengi. It was impossible to determine the order in which Mali Mengi and Ndeleva died.

The executors also advise you that:

- i. Kisitu chose the Toyota corolla
- ii. Mali Mengi sold Ills painting of the mausoleum using the proceeds to purchase his holding in Soko Mjinga Ltd.
- iii. There is no such investment as 110% Kenya stock. The referees in the will to 110% is thought to be a typing error not previously noticed.
- iv. Jirani replied in writing that he did not want anything from Mali Mengi because Mali
- v. Mali Mengi paid the Sh.100,000 during his life to his sister Dada to establish a business.

Required:

- (a) A statement showing the distribution of Mali Mengi's estate on 1 May 2000.(16 marks)
- (b) A list of legacies to which the executors should not assent. briefly give reasons for the decision. (4 marks)

QUESTION TWO (20 MARKS)

- a) Discuss different types of legacies (5 marks)
- b) Elucidate the characteristics of a valid will (5 marks)
- c) Enumerate the duties of a legal personal representative (5 marks)
- d) Discuss the various ways in which a trustee may cease holding office (5 marks)

QUESTION THREE (20 MARKS)

- a) A trust will be valid only if the three certainties are present, discuss (6 marks)
- b) For the creation of a trust, some conditions must be fulfilled which are known as Essentials of a trust. List any four of them (4 marks)
- c) Discuss any five duties of a trustee (5 marks)
- d) Discuss the conditions which must be fulfilled for a gift in contemplation of death to be valid and effective (5 marks)

QUESTION FOUR (20 MARKS)

- a) In accordance with the law of Trust Cap 167 Laws of Kenya, the trust estate should be invested in Special Range, Wider Range and/or Special Range. Citing the provisions of the relevant Act, discuss these provisions (6 marks)
- b) In the context of the Law of Succession Act, briefly discuss the following terms;
 - i. Implied Trust (4 marks)
 - ii. Protective trust (2 marks)
 - iii. Statutory trust (2 marks)
- c) “A will is testamentary document which must be executed to the letter”
Discuss the exceptions to the foregoing statement (6 marks)

QUESTION FIVE (20 MARKS)

Kombo died on 31 October 2000 and left his estate as follows

Sh.

Household furniture 90,000

Cash in house 2,000

Cash at bank 250,000

10,000 ordinary shares of sh,20 each in KFC Ltd.

valued at sh.30 per share 300,000

Investment at 5% on freehold property securities

(interest thereon paid to 30 June 2000) 400,000

Share in business of Kombo & Co. valued at death 1,226,400

Sundry debtors 20,000

His liability amounted to 5,000

Funeral expenses 10,000

The following additional information is available:

1. A legacy of Sh. 20,000 was bequeathed to his executor and was paid on 28 January 2001
2. The residue of the estate was left in trust for his infant son
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3. The household furniture was sold on 15 December 2000 for Sh.96,000
4. The shares were sold on the same date at Sh. 29 Ex Div: a dividend being received on 25 January 2001 at 10% for the year ending 31 December 2000
5. Interest on investment in freehold property securities was received with interest at 5% per annum

6. The liabilities and funeral expenses were discharged on 20 December 2000 on which date Sh. 10,000 of the debts due were received. The balance being unpaid at the date of preparation of accounts

Required:

- a) Prepare journal entries to record the above transactions (5 marks)
- b) Prepare the estate cash book (4 marks)
- c) Prepare the estate income account (3 marks)
- d) Prepare the estate capital account (5 marks)
- e) Prepare balance sheet of Kombo; deceased as at 31 January 2001 (3 marks)