

WELCOME

Financial accounting 3

ROYALTY ACCOUNTS

TERMS USE IN ROYALTY ACCOUNTS

- ***LANDLORD***
- ***LESSEE***
- ***ROYALTY***

TYPES OF ROYALTIES

- **Mining Royalty**
- **Patent Royalty**
- **Copyright Royalty**

SURPLUS FORMULA

❖ ***SURPLUS = Actual royalty - Minimum Rent***

Problems

• **Sum Number 1**

A Company leased a colliery on 1st January , 2007 at a minimum rent of 20,000 merging into a royalty of rs.1.50 per ton with power to recoup short workings over the first four years was 9,000 tons , 12,000 tons , 16,000 tons , 20,000 tons respectively

Pass the necessary journal entries for each of the four years in the book of the company

Answer

ANALYTICAL TABLE

| YEARS | Output (in tons) | Minimum rent r s | Royalty @ r s 1.5 per tons | Short workings r s | surplus | Short working recouped | Short working not recouped | Paid to land lord |
|-------|------------------|------------------|----------------------------|--------------------|---------|------------------------|----------------------------|-------------------|
| 2007 | 9000 | 20000 | 3500 | 6500 | ----- | ----- | ----- | 20000 |
| 2008 | 12000 | 20000 | 18000 | 2000 | ----- | ----- | ----- | 20000 |
| 2009 | 16000 | 20000 | 24000 | ----- | 4000 | 4000 | 4500 | 20000 |
| 2010 | 20000 | 20000 | 30000 | ----- | 10000 | ----- | ----- | 30000 |

| DATE | PARTICULARS | | Amt(r s) | Amt(r s) |
|---------|------------------------------------------------------|----|----------|----------|
| 31 2007 | short working a/c | dr | 6500 | |
| | Royalties a/c | dr | 13500 | |
| | to land lord | | | 20000 |
| | (Being royalties @r s 1.50 per ton in the make up) | | | |
| Dec 31 | Landlord a/c | dr | 20000 | |
| | to bank a/c | | | 20000 |
| | (being the payment of minimum rent) | | | |
| Dec 31 | Production a/c | dr | 13500 | |
| | to royalties a/c | | | 13500 |
| | (being transfer to actual royalty to production a/c) | | | |
| Dec 31 | Royalties a/c | dr | 18000 | |
| | Short working | dr | 2000 | |
| | to land lord | | | 20000 |
| | (being royalties @rs 1.50 per ton in the makeup) | | | |

| date | particular | | Amt(Rs) | Amt(RS) |
|--------|------------------------------------------------------------------------------------------|----|----------|---------|
| dec31 | Land lord a/c | dr | 20000 | |
| | To bank a/c | | | 20000 |
| | (being the payment of minimum rent) | | | |
| Dec 31 | Production a/c | dr | 18000 | |
| | To royalties a/c | | | 18000 |
| | (being transfer to actual royalties to production a/c) | | | |
| Dec 31 | Royalties a/c | dr | 20000 | |
| | to land lord /C | | | 20000 |
| | (being royalties @rs 1.50 per ton on 20000) | | | |
| Dec 31 | Land lord a/c | dr | 20000 | |
| | to short working a/c | | | 4000 |
| | to bank a/c | | | 16000 |
| | (being minimum rent of rs 20000 paid to the land lord rs 4000 short working recouped) | | | |
| | | | | |
| | | | | |

| DATE | PARTICULAR | | AMT(RS) | Amt(RS) |
|--------|--------------------------------------------------|----|---------|---------|
| dec31 | Production a/c | dr | 20000 | |
| | to royalties a/c | | | 20000 |
| | (being transfer to royalties for the year) | | | |
| dec31 | Profit and loss a/c | dr | 4500 | |
| | to short workings a/c | | | 4500 |
| | (being transfer of irrecoverable short workings) | | | |
| Dec 31 | Royalty a/c | dr | 20000 | |
| | to land lord a/c | | | 20000 |
| | (being royalties due@ rs 1.50 per ton on 20000) | | | |
| Dec 31 | Land lord a/c | dr | 20000 | |
| | to bank a/c | | | 20000 |
| | (being payment of royalties) | | | |
| dec31 | Production a/c | dr | 20000 | |
| | to royalties a/c | | | 20000 |
| | (being transfer to royalties to production a/c) | | | |

THANK YOU