NAME: OGUNDIJO LYDIA DOLAPO

MATRIC NUMBER: 18/SMS01/025

DEPARTMENT: ECONOMICS

QUESTION 1: Akeredolu Plc obtains a lease from the landlord Yerima to work on a mine. Terms are for a royalty of ₦2 per ton with a minimum output of 1000 tons a year. Akeredolu Plc sublets part to Chinweta, terms being a royalty of ₦2 per ton with a minimum output of 300tons. Shortworkings of any year in the head lease could be recovered from the royalties of the following one year, while in the sub-lease; shortworkings could be recovered throughout the period of sublease. The tons of output are as follows;

Year.	Akeredolu	Chinweta.	Total Production
2001	720.	100	820
2002	800	140	940
2003	1,200	300	1,500
2004	600	320	920
2005	900	400	1,300

Required: make necessary entries in the books of the lessee

In the books of the lessee (Akeredolu plc)

Year	Lessee output	Sub-lessee output	Combined output	Actual royalty	Minimum royalty	Shortworking	Shortworking recouped	Shortworking lapsed	Amount paid
2001	720	100	820	1640	2000	360	-	-	2000
2002	800	140	940	1880	2000	120	-	360	2000
2003	1200	300	1500	3000	2000	-	120	-	2880
2004	600	320	920	1840	2000	160	-	-	2000
2005	900	400	1300	2600	2000	-	160	-	2440

Sublessee Agreement

Year	Output	Actual royalty	Minimum royalty	Shortworking	Shortworking recouped	Shortworking lapsed	Amount paid
2001	100	200	600	400	-	-	600
2002	140	280	600	320	-	-	600
2003	300	600	600	-	-	-	600
2004	320	640	600	-	40	-	600
2005	400	800	600	-	200	480	600

Royalty payable

	#		#
31/12/01 lessor	1440	31/12/01 Statement of profit or loss.	1440
31/12/02. lessor	1600	31/12/02 Statement of profit or loss.	1600
31/13/03 Lessor	2400	31/12/03 Statement of profit or loss.	2400
31/12/04. Lessor	1200	31/12/04 Statement of profit or loss.	1200
31/12/05. Lessor	1800	31/12/05 Statement of profit or loss.	1800

Lessor Account

		#		#
31/12/01	Bank	2000	31/12/01 Royalty payable	1440
			31/12/01 Royalty receivable	200
			31/12/01 Shortworking recoverable	360
		2000		2000

31/12/02	Bank	2000	31/12/02	Royalty payable.	1600
			31/12/02	Royalty receivable	280
			31/12/02	Shortworking recoverable.	120
		2000			2000
31/12/03	Shortworking recoverable	120	31/12/03	Royalty payable	2400
31/12/03	Bank	2880	31/12/03	Royalty receivable	600
		3000			3000
31/12/04	Bank	2400	31/12/04	Royalty payable.	1200
			31/12/04	Royalty receivable	640
			31/12/04	Shortworking recoverable	160
		2000			2000
31/12/05	Shortworking recoverable.	160	31/12/05	Royalty payable	1800
31/12/05.	Bank	2440	31/12/05	Royalty receivable	800
		2600			2600

Shortworking recoverable Account

		#			#
31/12/01	Lessor	360	31/12/01	Balance c/d	360
01/01/02.	Balance b/d	360	31/12/02	Statement of P or L	360
31/12/02	Lessor	120	31/12/02	Balance c/d	120
		480			480
01/01/03	Balance b/d	120	31/12/03	Lessor.	120
31/12/04	Lessor	160	31/12/04.	Balance c/d	160
01/01/05	Balance b/d	160	31/12/05	Lessor	160

Shortworking Allowable Account

		#			#
31/12/01	Balance c/d.	400	31/12/01	Sub lessee	400
31/12/02.	Balance c/d	720	01/01/02.	Balance b/d.	400
			31/12/02	Sub lessee	320
		720			720
31/12/03	Balance c/d	720	01/01/03	Balance b/d	720
31/12/04	Sub lessee.	40	01/01/04	Balance b/d	720
31/12/04	Balance c/d	680			
		720			720
31/12/05	Sub lessee	200	01/01/05	Balance b/d	680
31/12/05.	Statement of P or L	480			
		680			680

Sub lessee Account

		#			#
31/12/01	Royalty receivable	200	31/12/01	Bank	600
31/12/01	Royalty allowable	400			
		600			600
31/12/02	Royalty receivable.	280	31/12/02	Bank	600
31/12/02	Royalty allowable	320			
		600			600
31/12/03.	Royalty receivable	600	31/12/03	Bank	600
31/12/04	Royalty receivable	640	31/12/04.	Shortworking allowable	40
			31/12/04	Bank	600

		640			640
31/12/05	Royalty receivable	800	31/12/05	Shortworking allowable	200
			31/12/05	Bank.	600
		800			800

Royalty receivable Account

		#			#
31/12/01	Lessor.	200	31/12/01	Sub lessee	200
31/12/02	Lessor	280	31/12/02	Sub lessee	280
31/12/03	Lessor	600	31/12/03	Sub lessee	600
31/12/04	Lessor	640	31/12/04	Sub lessee	640
31/12/05	Lessor	800	31/12/05	Sub lessee	800

Question 2: Relating your discussion with relevant accounting concepts, why are shortworkings recoverable shown as an asset and shortworkings allowable as a liability in the statement of financial position?

Shortworking allowable and shortworking recoupable are shown as liability and assets respectively in the statement of financial position this, follows the prudence concept which states that provisions should be made for all losses and due case should be exercised in recognizing profit. In this case, the landlord exercises due case not to recognize the shortworkings yet not until they are lapsed and the tenant on his part does not record the loss up until he is unable to recover it.

It also follows the realization concept in that the landlord does not record the shortworking as profit until it is lapsed and the tenant does not realise his loss until he is unable to recover it.