

NAME: DURU RONALD CHIDERA

MATRIC NUMBER: 18/SMS01/011

DEPARTMENT: ECONOMICS

QUESTION 5

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

Lessor Account

31/12/01	Bank	2000	31/12/01 Royalty payable	1440
			31/12/01 Royalty receivable	200
			31/12/01 Shortworking recoverable	<u>360</u>
		<u>2000</u>		<u>2000</u>
31/12/02	Bank	2000	31/12/02 Royalty payable.	1600
			31/12/02 Royalty receivable	280
			31/12/02 Shortworking recoverable.	<u>120</u>
		<u>2000</u>		<u>2000</u>
31/12/03	Shortworking recoverable	120	31/12/03 Royalty payable	2400
31/12/03	Bank	<u>2880</u>	31/12/03 Royalty receivable	<u>600</u>
		<u>3000</u>		<u>3000</u>
31/12/04	Bank	2400	31/12/04 Royalty payable.	1200
			31/12/04 Royalty receivable	640
			31/12/04 Shortworking recoverable	<u>160</u>
		<u>2000</u>		<u>2000</u>
31/12/05	Shortworking recoverable.	160	31/12/05 Royalty payable	1800

31/12/05.	Bank	<u>2440</u>	31/12/05 Royalty receivable	<u>800</u>
		<u>2600</u>		<u>2600</u>

Shortworking recoverable Account

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

Shortworking Allowable Account

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

Sub lessee Account

31/12/01	Royalty receivable	200	31/12/01	Bank	600
31/12/01	Royalty allowable	<u>400</u>			
		<u>600</u>			<u>600</u>
31/12/02	Royalty receivable.	280	31/12/02	Bank	600
31/12/02	Royalty allowable	<u>320</u>			
		<u>600</u>			<u>600</u>
31/12/03.	Royalty receivable	<u>600</u>	31/12/03	Bank	<u>600</u>
31/12/04	Royalty receivable	640	31/12/04.	Shortworking allowable	40
			31/12/04	Bank	<u>600</u>
		<u>640</u>			<u>640</u>
31/12/05	Royalty receivable	800	31/12/05	Shortworking allowable	200
			31/12/05	Bank.	<u>600</u>
		<u>800</u>			<u>800</u>

Royalty receivable Account

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

Question 6

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 care should be exercised in recognizing profit. In this

case, the landlord exercises due care 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.