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 DEPARTMENT: ACCOUNTING
 COURSE: FINANCIAL ACCOUNTING AND REPORTING.
 COURSE CODE: ACC 202
 MATRICULATION NUMBER: 18/SMS02/015
 ASSIGNMENT: QUESTION 5 AND 6
 QUESTION 5

main lease agreement

year	lesse's output	sublesse's output	combined output	actual royaltyN	minimum royaltyN	short workingN(sw)	sw recoupedN	sw lapsed N	amount paidN
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

working note

1. minimum royalty: minimum output * two naira; $1000*2=2000$
2. actual royalty: each individual combined output*2

sublease agreement

Year	output	actual royaltyN	minimum royaltyN	shortworking(sw)N	sw recouableN	sw lapsedN	amount paidN
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

working note

1. minimum royalty= minimum output*2 naira= $300*2=600$
2. actual royalty= each individual output*2 naira

CHIDOLUE JESSIE IFEOMA ACC 202 ASSIGNMENT CONTINUED
ACCOUNTING, 18/SMS02/015
ledgers in the lessee's books

lessor's account		lessor's account2	
dr ₦			cr ₦
	2001		2001
31/12 bank	2000	31/12 royalty payable account	1440
		31/12 royalty recieveable account	200
		31/12 short working recoupable account	360
	2000		2000
	2002		2002
31/12 bank account	2000	31/12 royalty payable account	1600
		31/12 royalty recieveable	280
		31/12 short workings recoupable account	120
	2000		2000
	2003		2003
31/12 short working recoupable account	120	31/12 royalty payable account	2400
31/12 bank account	2880	31/12 royalty recieveable account	600
	3000		3000
	2004		2004
31/12 bank account	2000	31/12 royalty payable account	1200
		31/12 royalty recieveable account	640
		31/12 short working recoupable account	160
	2000		2000
	2005		2005
31/12 short working recoupable account	160	31/12 royalty payable account	1800
31/12 bank account	2440	31/12 royalty recieveable account	800
	2600		2600

royalty payable account		royalty payable account 2	
dr ₦			cr ₦
	2001		2001
31/12 lessor's account	1440	31/12 statement of profit or loss account	1440
	2002		2002
31/12 lessor's account	1600	31/12 statement of profit or loss account	1600
	2003		2003
31/12 lessor's account	2400	31/12 statement of profit or loss account	2400
	2004		2004
31/12 lessor's account	1200	31/12 statement of profit or loss account	1200
	2005		2005
31/12 lessor's account	1800	31/12 statement of profit or loss account	1800

short workings recoupable account		short workings recoupable account2	
dr ₦			cr ₦
	2001		2001
lessor's account	360	31/12 balance carried down	360
	2002		2002
1/1 balance brought down	360	31/12 statement of profit or loss account	360
31/12 lessor's account	120	31/12 balance carried down	120
	480		480
	2003		2003
1/1 balance brought down	120	31/12 lessor's account	120
	2004		2004
31/12 lessor's account	160	31/12 balance carried down	160
	2005		2005
1/1 balance brought down	160	31/12 lessor's account	160

sublessee's account		sublessee's account 2	
dr ₦			cr ₦
	2001		2001
31/12 royalty recieveable account	200	31/12 bank account	600
31/12 short workings allowable account	400		
	600		600
	2002		2002
31/12 royalty recieveable account	280	31/12 bank account	600
31/12 short workings allowable account	320		
	600		600
	2003		2003
31/12 royalty recieveable account	600	31/12 bank account	600
	2004		2004
31/12 royalty recieveable account	640	31/12 short workings allowable account	40
		31/12 bank account	600
	640		640
	2005		2005
31/12 royalty recieveable account	800	31/12 short workings allowable account	200
		31/12 bank account	600
	800		800

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short workings allowable account		short workings allowable account2	
dr			cr
	2001		2001
31/12 balance carried down	400	31/12 sublessee's account	400
	2002		2002
31/12 balance carried down	720	1/1 balance brought down	400
		31/12 sublessee's account	320
	720		720
	2003		2003
31/12 balance carried down	720	1/1 balance brought down	720
	2004		2004
31/12 sublessee's account	40	1/1 balance brought down	720
31/12 balance carried down	680		
	720		720
	2005		2005
31/12 sublessee's account	200	1/1 balance brought down	680
31/12 statement of profit or loss account	480		
	680		680

royalty receivable account		royalty receivable account2	
dr			cr
	2001		2001
31/12 lessor's account	200	31/12 sublessee's account	200
	2002		2002
31/12 lessor's account	280	31/12 sublessee's account	280
	2003		2003
31/12 lessor's account	600	31/12 sublessee's account	600
	2004		2004
31/12 lessor's account	640	31/12 sublessee's account	640
	2005		2005
31/12 lessor's account	800	31/12 sublessee's account	800

QUESTION 6

short working allowable is treated as a liability in the statement of financial position, because it looks like a payable to the lessee and which can only be paid back within a time range. the lessee thus on his own part views it as an asset (short working recoupable/ receivable) which he can only receive within a given time range. It tends to follow the prudence and realization concept the prudence convention states that provisions should be made for all losses and due care exercised in profit recognition. prudence convention in the sense that the short working allowable is a liability to the lessor in the statement of financial position but he takes adequate measures not to record it as a liability so quickly until the lessee recoups it, by so doing he avoids overstating his liabilities.

On the other hand the short working allowable is treated as an asset in the statement of financial position on the part of the lessee, he also takes prudential measures not to record it as asset so quickly lest it lapses and he ends up overstating his asset value. rather he makes provision for the short working lest it lapses and he is unable to recoup it.

it follows the realization concept in the sense that the lessor on his part only realizes short working allowable as a liability when the lessee ends up recouping it. And the lessee only realizes short working recoverable/ receivable as an asset when he is able to it before it lapses