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Year	Actual unit	Actual royalty(N)	Minimum royalty (N)	Shortworkings (N)	Shortworkings recouped(N)	Shortworkings apsed(N)	Amount received (N)
2001	720	1440	2000	560	-	-	2000
2002	800	1600	2000	400	-	560	2000
2003	1200	2400	2000	-	400	-	2000
2004	600	1200	2000	800	-	-	2000
2005	900	1800	2000	200	-	800	2000

		N	N			
31/12/01.	Statement of profit/loss.	1440		31/12/01.	Statement of profit/loss.	1440
31/12/02.	Statement of profit/loss.	1600		31/12/02.	Statement of profit/loss.	1600
31/12/03.	Statement of profit/loss.	2400		31/12/03.	Statement of profit/loss.	2400
31/12/04.	Statement of profit/loss.	1200		31/12/04.	Statement of profit/loss.	1200
				31/12/05.	Statement of profit/loss.	1800

Lessee's Account

Date.		N		N		N
31/12/01.	Royalty.	1440	31/12/01.	Bank.		2000
31/12/01.	Shortworkings.	560				
			2000	2000		
31/12/02.	Royalty.	1600	31/12/02.	Bank.		2000
31/12/02.	Shortworkings.	400				
			2000	2000		
31/12/03	Royalty.	2400	31/12/03.	Bank.		2000
			31/12/03.	Shortworkings.		400
			2400	2400		
31/12/04.	Royalty.	1200	31/12/04.	Bank.		2000
31/12/04.	Shortworkings.	800				
			2000	2000		
31/12/05.	Royalty.	1800	31/12/05.	Bank.		2000
31/12/05.	Shortworkings.	200				
			2000	2000		

Shortworkings (Allowable) A/C

Date.		N	Date		N
31/12/01.	Bal c/d.	560	30/12/01.	Lessee.	560
31/12/02.	Statement of profit/loss.	560	1/1/02.	Bal c/d.	560
31/12/02.	Bal c/d.	400	31/12/02.	Lessee.	400
			960	960	
31/12/03.	Lessee.	400	1/1/03.	Bal c/d.	400
31/12/04.	Bal c/d.	800	1/1/04.	Lessee.	800
31/12/05.	Bal c/d.	200	1/1/05.	Bal c/d.	800

31/12/05.	Statement of profit/loss.	800	31/12/05.	Lessee.	200
		1000		1000	
			1/1/06.	Bal c/d.	200

#### Question 6

Shortworking recoverable are shown as asset and shortworking allowable as a liability on the statement of financial position because of the prudence and realization concept

##### Prudence Concept

is a key accounting principle that makes sure that assets and income are not overstated and provision is made for all known expenses and losses whether the amount is known for certain or just an estimation i.e expenses and liabilities are not understated in the books of accounting.

The shortworkings recoverable and shortworking allowable tends to follow the prudence concept. The concept says revenue and profits are included in the statement of financial position only when they are realized or there is a reasonable certainty of realizing them but liabilities are included when there is a reasonable possibility of incurring them.

Shortworkings recoverable can be a loss or can be realized by the lessee only when the royalty is in excess of the minimum rent which is called the right of recoupment and it can be decided for a fixed period or floating period. When the right of recoupment is fixed for the certain starting years from the date of royalty agreement, it is said to be fixed or restricted. On the other hand, when the lessee is eligible to recoup the shortworkings in the next 2 or 3 years from the year of its commencement, it is said to be floating.

Shortworkings will be shown on the asset side of the statement of financial position up to allowable year of recouping after that it will be transferred to p or l account( after expiry of allowable period) which makes shortworkings allowable a liability.

##### Realization concept

The realization concept is that the revenue is recognized and recorded in the period in which they are realized. In other word, revenue is realized when a sale is completed by the delivery of a product.

In royalty accounting the landlord does not record the shortworkings until it is lapsed and the tenant does not realize his loss until he is unable to recover it.