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 MATRIC NO : 18/SMS01/004  
 DEPARTMENT: ECONOMICS  
 ASSIGNMENT: Answer question 2 and 6 from note.

QUESTION 2  
 IN THE BOOKS OF THE LESSOR (YERIMA'S BOOKS)

Year	Actual Units (tonnes)	Actual Royalty (N)	Minimum Royalty (N)	Short Workings (N)	Short Workings Recouped (N)	Short Workings Lapsed (N)	Amount Recei (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

Royalty Receivables Account

		(N)			(N)
12/31/2001	Statement of Profit or Loss	<u>1440</u>	12/31/2001	Lessee	<u>1440</u>
12/31/2002	Statement of Profit or Loss	<u>1600</u>	12/31/2002	Lessee	<u>1600</u>
12/31/2003	Statement of Profit or Loss	<u>2400</u>	12/31/2003	Lessee	<u>2400</u>
12/31/2004	Statement of Profit or Loss	<u>1200</u>	12/31/2004	Lessee	<u>1200</u>
12/31/2005	Statement of Profit or Loss	<u>1800</u>	12/31/2005	Lessee	<u>1800</u>

Lessee Account (Akeredolu PLC A/C)

		(N)			(N)
12/31/2001	Royalty	1440			
12/31/2001	Short Workings	<u>560</u>	12/31/2001	Bank	<u>2000</u>
		<u>2000</u>			<u>2000</u>
12/31/2002	Royalty	1600			
12/31/2002	Short Workings	<u>400</u>	12/31/2002	Bank	<u>2000</u>
		<u>2000</u>			<u>2000</u>

12/31/2003 Royalty	2400	12/31/2003 Short Workings	400
		12/31/2003 Bank	2000
	<u>2400</u>		<u>2400</u>
12/31/2004 Royalty	1200		
12/31/2004 S.Working	800	12/31/2004 Bank	2000
	<u>2000</u>		<u>2000</u>
12/31/2005 Royalty	1800		
12/31/2005 S.Workings	200	12/31/2005 Bank	2000
	<u>2000</u>		<u>2000</u>

Short Workings Account

	(N)		(N)
12/31/2001 bal c/d	<u>560</u>	12/31/2001 Lessee	<u>560</u>
12/31/2002 Statement of P or L	560	1/1/2002 bal b/d	560
12/31/2002 bal c/d	<u>400</u>	12/31/2002 Lessee	<u>400</u>
	<u>960</u>		<u>960</u>
12/31/2003 Lessee	<u>400</u>	1/1/2003 bal b/d	<u>400</u>
12/31/2004 Bal c/d	<u>800</u>	12/31/2004 Lessee	<u>800</u>
12/31/2005 Statement of P or L	800	1/1/2005 bal b/d	800
12/31/2005 bal c/d	<u>200</u>	12/31/2005 Lessee	<u>200</u>
	<u>1000</u>		<u>1000</u>
		1/1/2006 bal b/d	200

Question 6

The posting of shortworkings recoverable and shortworkings allowable as an asset and liability respectively in the sfp follows the prudence and realization concept.

The prudence concept instructs that revenue should only be recognized when they are certain.

The realization concept says that revenue should only be recognized when it has been earned and expenses, when it has been incurred.

Based on those, the short workings allowable is recognized as a liability (for the lessor) because there is a chance that the lessee would be able to recoup it before the lapse time. So the lessor is not yet guaranteed that the money is for him. So when the lessee recoups it, it's a liability to the lessor. I like to think of it as being likened to a payable such that you can be with the money for a while but after sometime the "owner" can come take it back. And of course, short workings recoverable is recognized as an asset by the lessee when he is able to recoup it before the lapse time. He can't just assume he will recoup it and go ahead to record the profit ahead of time, that will be against the prudence concept. Only when it has actually been recovered before time is it recorded as an asset.