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Lessors books

Year	Actual unit	Actual royalty(N)	Minimum royalty (N)	Shortworkings(N)	Shortworkings recouped(N)	Shortworkings Lapsed(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

Royalty receivable

	N		N
31/12/01. Statement of profit/loss.	1440	31/12/01. Lessee.	1400
31/12/02. Statement of profit/loss.	1600	31/12/02. Lessee.	1600
31/12/03. Statement of profit/loss.	2400	31/12/03. Lessee.	2400
31/12/04. Statement of profit/loss.	1200	31/12/04. Lessee.	1200
		31/12/05. Lessee.	1800

Lessee account

	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) account

	N		N
31/12/01. Bal c/d.	560	31/12/01. Lessee.	560
31/12/02. Statement of profit/loss.	560		
31/12/02. Bal c/d.	400	31/12/02. Lessee.	400
	960		960
31/12/03. Lessee.	400	1/1/03. Bal b/d.	400
31/12/04. Bal c/d.	800	31/12/04. Lessee.	800
31/12/05. Statement of profit/loss	800	1/1/05. Bal b/d.	800
31/12/05. Bal c/d.	200	31/12/05. Lessee.	200
	1000		1000
		1/1/06. Bal b/d.	200

Question 6(answer)

The accounting concept that shortworkings allowable and recoverable follow is the prudence concept. The prudence concept is an accounting principle that records liabilities and expenses as soon as they occur, but revenue only when they are realized or assured. Shortworkings allowable Is transferred to profit and loss account(after expiry of allowable period). 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 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 it's commencement, it is said to be floating.