NAME: IDUNDUN TRACEY

DEPT: ACCOUNTING

LEVEL: 300 LEVEL

COURSE CODE: ACC 202

COURSE TITLE: FINANCIAL ACCOUNTING 2

MATRIC NO: 17/SMS02/022

QUESTION

2) Akeredolu plc. obtains a lease from the landlord Yerima to work on a mine. Terms are for a royalty of N2 per tons with a minimum output of 1000 tons a year. Akeredolu plc. sublets part to Chinweta, terms being a royalty of N2 per ton with a minimum output of 300tons. Short workings of any year in the head lease could be recovered from the royalties of the following one year, while in sub lease; short workings could be recovered throughout the period of sublease. The tons of outputs are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Akeredolu | Chinweta | Total production |
| 2001 | 720 | 100 | 820 |
| 2002 | 800 | 140 | 940 |
| 2003 | 1200 | 300 | 1500 |
| 2004 | 600 | 320 | 920 |
| 2005 | 900 | 400 | 1300 |

Required: make necessary entries in the books of the lessor.

6) Relating your discussion with relevant accounting concepts, why are short workings recoverable shown as an asset and short workings allowable as a liability in the statement of financial position?

ANSWER

2)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Mr. yerima (lessors) book (N) |  |  |  |  |  |
| **year** | **Lessee** | **sublease** | **combined** | **actual** | **minimum** | **short** | **Shortwor** | **shortwor** | **amount** |
|  | **output** | **output** | **output** | **royalty** | **Royalty** | **workings** | **Recoupled** | **relapsed** | **received** |
| 2001 | 720 | 100 | 820 | 1640 | 2000 | 360 | 0 | 0 | 2000 |
| 2002 | 800 | 140 | 940 | 1880 | 2000 | 120 | 0 | 360 | 2000 |
| 2003 | 1200 | 300 | 1500 | 3000 | 2000 | 0 | 120 | 0 | 2000 |
| 2004 | 600 | 320 | 920 | 1840 | 2000 | 160 | 0 | 0 | 2000 |
| 2005 | 900 | 400 | 1300 | 2600 | 2000 | 0 | 160 | 0 | 2000 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | sub lease agreement |  |  |  |  |
| **year** | **sublease** | **actual** | **minimum** | **short** | **shortworking** | **shortworking** | **amount**  |
|  | **output** | **royalty** | **royalty** | **working** | **recoupled** | **relapsed** |  | **received** |
| 2001 | 100 | 200 | 600 | 400 | 0 |  | 0 |  | 600 |
| 2002 | 140 | 280 | 600 | 320 | 0 |  | 0 |  | 600 |
| 2003 | 300 | 600 | 600 | 0 | 0 |  | 0 |  | 600 |
| 2004 | 320 | 640 | 600 | 0 | 40 |  | 0 |  | 600 |
| 2005 | 400 | 800 | 600 | 0 | 200 |  | 480 |  | 600 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | lessee A/C |  |  |  |
|  |  |  |  | **N** |  |  |  |  | **N** |
| 31-12-01 | royalty payable |  | 1440 | 31-12-01 | bank |  |  | 2000 |
| 31-12-01 | royalty receivable |  | 200 |  |  |  |  |  |
| 31-12-01 | shortworking receivable | 360 |  |  |  |  |  |
|  |  |  |  | 2000 |  |  |  |  | 2000 |
| 31-12-02 | royalty payable |  | 1600 | 31-12-02 | bank |  |  | 2000 |
| 31-12-02 | royalty receivable |  | 280 |  |  |  |  |  |
| 31-12-02 | shortworking receivable | 120 |  |  |  |  |  |
|  |  |  |  | 2000 |  |  |  |  | 2000 |
| 31-12-03 | royalty payable |  | 2400 | 31-12-03 | shortwoking recoupled | 120 |
| 31-12-03 | royalty receivable |  | 600 | 31-12-03 | bank |  |  | 2880 |
|  |  |  |  | 3000 |  |  |  |  | 300 |
| 31-12-04 | royalty payable |  | 1200 | 31-12-04 | bank |  |  | 2000 |
| 31-12-04 | royalty receivable |  | 640 |  |  |  |  |  |
| 31-12-04 | shortworking receivable | 160 |  |  |  |  |  |
|  |  |  |  | 2000 |  |  |  |  | 2000 |
| 31-12-05 | royalty payable |  | 1800 | 31-12-05 | shortwoking recoupled | 160 |
| 31-12-05 | royalty receivable |  | 800 | 31-12-05 | bank |  |  | 2440 |
|  |  |  |  | 2600 |  |  |  |  | 2600 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | royalty payable A/C |  |  |
|  |  |  | N |  |  | N |
| 31-12-01 | statement of p&l | 1400 | 31-12-01 | Lessee | 1400 |
| 31-12-02 | statement of p&l | 1600 | 31-12-02 | Lessee | 1600 |
| 31-12-03 | statement of p&l | 2400 | 31-12-03 | Lessee | 2400 |
| 31-12-04 | statement of p&l | 1200 | 31-12-04 | Lessee | 1200 |
| 31-12-05 | statement of p&l | 1800 | 31-12-05 | Lessee | 1800 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | royalty receivable A/C |  |
|  |  |  | N |  |  | N |
| 31-12-01 | sublease |  |  | 31-12-01 | Lessee | 240 |
| 31-12-01 | statement of p&l | 40 |  |  |  |
|  |  |  | 240 |  |  | 240 |
| 31-12-02 | sublease |  | 280 | 31-12-02 | Lessee | 280 |
| 31-12-03 | sublease |  | 600 | 31-12-03 | Lessee | 600 |
| 31-12-04 | sublease |  | 640 | 31-12-04 | Lessee | 640 |
| 31-12-05 | sublease |  | 800 | 31-12-05 | Lessee | 800 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | shortworking receivable A/C |  |  |
|  |  |  | N |  |  | N |
| 31-12-01 | bal c/d |  | 360 | 31-12-01 | lessee | 360 |
| 31-12-02 | statement of p&l | 360 | 31-12-02 | bal b/d | 360 |
| 31-12-02 | bal c/d |  | 120 | 31-12-02 | lessee | 120 |
|  |  |  | 480 |  |  | 480 |
| 31-12-03 | Lessee |  | 120 | 31-12-03 | bal b/d | 120 |
| 31-12-04 | bal c/d |  | 160 | 31-12-04 | lessee | 160 |
| 31-12-05 | Lessee |  | 160 | 31-12-05 | bal b/d | 160 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | shortworking allowable A/C |  |  |
|  |  |  | N |  |  | N |
| 31-12-01 | bal c/d |  | 400 | 31-12-01 | sublease | 400 |
| 31-12-02 | bal c/d |  | 720 | 31-12-02 | bal b/d | 400 |
|  |  |  |  | 31-12-02 | sublease | 320 |
|  |  |  | 720 |  |  | 720 |
| 31-12-03 | bal c/d |  | 720 | 31-12-03 | bal b/d | 720 |
| 31-12-04 | sublease |  | 40 | 31-12-04 | bal b/d | 720 |
| 31-12-04 | bal c/d |  | 680 |  |  |  |
|  |  |  | 720 |  |  | 720 |
| 31-12-05 | sublease |  | 200 | 31-12-05 | bal b/d | 680 |
| 31-12-05 | statement of p&l | 480 |  |  |  |
|  |  |  | 680 |  |  | 680 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | sublease |  |  |  |  |
|  |  |  | N |  |  |  |  | N |
| royalty receivable |  | 200 | 31-12-01 | Bank |  |  | 600 |
| shortworking allowable | 400 |  |  |  |  |  |
|  |  |  | 600 |  |  |  |  | 600 |
| royalty receivable |  | 280 | 31-12-02 | Bank |  |  | 600 |
| shortworking allowable | 320 |  |  |  |  |  |
|  |  |  | 600 | 31-12-03 | Bank |  |  | 600 |
| royalty receivable |  | 600 | 31-12-04 | shortworking allowable | 40 |
| royalty receivable |  | 640 | 31-12-04 | Bank |  |  | 600 |
|  |  |  | 640 |  |  |  |  | 640 |
| royalty receivable |  | 800 | 31-12-05 | shortworking allowable | 200 |
|  |  |  |  | 31-12-05 | Bank |  |  | 600 |
|  |  |  | 800 |  |  |  |  | 800 |

6) Short working recoverable is shown on the asset side in the statement of financial position because it is assumed that the same will be recouped in future. Short working recoverable falls under accounts receivable cause it is assumed that in the long run it will produce money. Shortworking allowable is written as a liability in the statement of financial position cause it is considered as accounts payable. Shortworking allowable is basically what the tenant owes the landlord that he hasn’t paid and is considered as credit. It isn’t going to bring any money to the tenant and at the moment is bringing money to the landlord too so it is seen as a liability.