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 Matric No: I8/SMS02/040
 Department: ACCOUNTING
 Course: ACC202

QUESTION 2:

AKEREDOLU PLC

Minimum Royalty for head lesse= Minimum output *amount per ton

YEAR	LESSEE OUTPUT (=N=)	SUBLEASE OUTPUT (=N=)	ACTUAL ROYALTY (=N=)	MINIMUM ROYALTY (=N=)	SHORT WORKINGS (=N=)	SHORT WORKINGS RECOUPED (=N=)	SHORT LAPSED (=N=)	AMOUNT PAID (=N=)
2001	720	100	1,440	2,000	360			2,000
2002	800	140	1,600	2,000	120		360	2,000
2003	1,200	300	2,400	2,000		120		2,880
2004	600	320	1,200	2,000	160			2,000
2005	900	400	1,800	2,000		160		2,440

ROYALTY RECEIVABLE ACCOUNT

YEAR		(=N=)		(=N=)
31/12/01	Statement of P & L	1,440	31/12/01 Lessee	1,440
31/12/02	Statement of P & L	1,600	31/12/02 Lessee	1,600
31/12/03	Statement of P & L	2,400	31/12/03 Lessee	2,400
31/12/04	Statement of P & L	1,200	31/12/04 Lessee	1,200
31/12/05	Statement of P & L	1,800	31/12/05 Lessee	1,800

LESSEE ACCOUNT

		(=N=)			(=N=)
31/12/01	Royalties	1,440	31/12/01	Bank	2,000
	Royalties				
	Receivables	200			
	Short workings	360			
		<u>2,000</u>			<u>2,000</u>
31/12/02	Royalties	1600	31/12/02	Bank	2000
	Royalties				
	Receivable	280			
	Short workings	120			
		<u>2000</u>			<u>2000</u>
31/12/03	Royalties	2400	31/12/03	Bank	2880
	Royalties				
	Receivable	600		Shortworkings	120
		<u>3000</u>			<u>3000</u>
31/12/04	Royalties	1200	31/12/04	Bank	2000
	Royalties				
	Receivables	640			
	Short working	160			
		<u>2000</u>			<u>2000</u>
31/12/05	Royalities	1800	31/12/05	Bank	2440
	Royalities				
	Receiveable	800		Shortworkings	160
		<u>2600</u>			<u>2600</u>

SHORTWORKINGS (Allowable) ACCOUNT

(=N=)			(=N=)		
31/12/01	Bal c/d	360	31/12/01	Lessee	360
31/12/02	Stat. of p&l	360	1/1/2002	Bal c /d	360
31/12/02	Bal c/d	120	31/12/02	Lessee	120
		480			480
31/12/03	Lessee	120	1/1/2003	Bal c /d	480
31/12/03	Bal c/d	360			480
		480			480
		120	1/1/2004	Bal c /d	360
31/12/04	Bal c/d	520	31/12/04	Lessee	160
		520			520
31/12/05	Lessee	160	1/1/2005	Bal c /d	360
31/12/05	Bal c/d	200			360
		360			360

QUESTION 6

In the statement of financial position, Shortworkings allowable and Shortworkings recoupable are shown as a liability and an asset respectively. The Prudence concept or conservatism principle, which states that liabilities and expenses are to be recorded as soon as they occur, but revenues only when they are assured, realized or recognised.

In this case the Landlord exercises due care not to recognize the shortworkings yet until they lapsed and the tenant on his path does not record the loss up until he is unable to recover it.

It also follows the Realisation concept in that the landlord does not record the shortworkings as profit until it is lapsed and the tenant does not realise his loss until he is unable to recover it