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**MATRIC NUMBER: 18/SMS03/020**

**DEPARTMENT: BUSINESS ADMINISTRATION**

**COURSE CODE: ACC202**

**COURSE TITLE: FINANCIAL ACCOUNTING II**

**ASSIGNMENT**

## Answers to Illustration 2 & 6

### 2. Akeredolu Plc

N2 per ton

Output of 1000 tons a year

Sublease to Chinweta @ N2 per ton

Output of 300 tons

### Workings

Books of the Lessor

Year	Lessee's Output	Sublease Output	Total Output	Actual Royalty	Minimum Royalty	Shortworkings	Shorworkings Recouped	Shorworkings Lapsed	Amount Received
2001	720	100	820	1640	2000	360			2000
2002	800	140	940	1880	2000	120		360	2000
2003	1200	300	1500	3000	2000		120		2880
2004	600	320	920	1840	2000	160			2000
2005	900	400	1300	2600	2000		160		2440

### Shortworkings A/c

2001	Bal c/d	<u>360</u>	2001	Lesse	<u>360</u>
2002	P&L	360	2002	Bal b/d	360
	Bal c/d	<u>120</u>		Lesse	<u>120</u>
		<u>480</u>			<u>480</u>
2003	Lesse	<u>120</u>	2003	Bal b/d	<u>120</u>
2004	Bal c/d	<u>160</u>	2004	Lesse	<u>160</u>
2005	Lesse	<u>160</u>	2005	Bal b/d	<u>160</u>

### Royalty Receivable Account

2001	P&L a/c	<u>1640</u>	2001	Lessee a/c	<u>1640</u>
2002	P&L a/c	<u>1880</u>	2002	Lessee a/c	<u>1880</u>
2003	P&L a/c	<u>3000</u>	2003	Lessee a/c	<u>3000</u>
2004	P&L a/c	<u>1840</u>	2004	Lessee a/c	<u>1840</u>
2005	P&L a/c	<u>2600</u>	2005	Lessee a/c	<u>2600</u>

Lessee Account (Akeredolu Plc.)					
2001	Royalty A/c (720*2)	1440	2001	Bank	2000
	Royalty A/c (100*2)	200			
	Shortworkings	360			
		<u>2000</u>			<u>2000</u>
2002	Royalty A/c	1880	2002	Bank	2000
	Shortworking	120			
		<u>2000</u>			<u>2000</u>
2003	Royalty	3000	2003	Bank	2880
				Shortworking	<u>120</u>
		<u>3000</u>			<u>3000</u>
2004	Royalty A/c	1840	2004	Bank	2000
		160			
		<u>2000</u>			<u>2000</u>
2005	Royalty	2600	2005	Bank	2440
				Shortworking	160
		<u>2600</u>			<u>2600</u>

6. Shortworkings recoverable is shown as an asset because the short fall added by the grantee to make up the minimum payment should not be regarded as a loss by the grantee until the period within which the recovery of such short fall lapses. If the period has not expired, the short working is still regarded as an asset. It is written off as expense or loss immediately the period to recoup the short workings expires.

Shortworkings allowable is shown as a liability because shortworkings which its period of recovery has not lapsed should not be regarded by the grantor as income but a liability until the expiration of the concessionary period i.e. if the grantee is allowed to recoup any shortworkings within a stipulated time.

These can be related to the prudence concept. As per the prudence concept of accounting, Assets and income should not be overstated, and liabilities and expenses should not be understated.

Once a liability or expense has occurred, provision should be provided for even if the amount or time is uncertain. As regards income, it can be recognized only if the amount and receipt is certain. This can be seen above.