# **ROYALITY ACCOUNTS**

# **B.COM-Part-I**

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# Journal Entries in the Books of Landlord

In the books of the lessor or landlord the accounting treatment will be the reverse of what we have done so far. The following entries will be recorded:

# (I) When the royalties received are less than the Minimum Rent and shortworkings are recoverable out of future years

(a) Lessee's Account Dr.

To Royalties Receivable A/c To Royalties Reserve A/c (Being Minimum Rent due from Lessee)

(b) Cash A/c

Dr.

To Lessee's A/c (Being cash received from Lessee)

	(c)	Royalty Receivable A/d	с	Dr.				
		To Profit (Being Royalty receiva & Loss a/c)	t & Loss A ble A/c tra	/c unsferred to Profit				
(II)	When <b>H</b>	Royalties and Minimum	Rent both	are equal				
	(a)	Lessee's A/c	Dr.					
		To Royal	lties Recei	vable A/c				
		(Being Royalties due from Lessee)						
	(b)	Cash A/c		Dr.				
		To Lessee's A/c (Being cash received from Lessee)						
	(c)	Royalty Receivable A/a	с	Dr.				
		To Profit Royalties A/c transferr & Loss A/c)	t & Loss A ed to Profi	/c (Being t				
(III)	When t	he Royalties received ar	e more th	an the Minimum Rent and				
	power t	o recoup the shortworki	ings					
	(a)	Lessee's A/c	Dr.					
		To Royalties Receivable A/c						
	(Being Royalties due from Lessee)							
	(b)	Cash A/c		Dr.				
		Royalties Reserve A/c		Dr.				
		To Lesse	e's A/c					
	(Bei	(Being cash received & shortworkings recouped)						

(c)	c) Royalties Receivable A/c Dr.				
	Royalties Reserve A/c	Dr.			

To Profit & Loss A/c

(Being royalty & unrecouped shortworkings transferred to Profit & Loss A/c)

**Illustration-5** : On Ist Jan., a Coal Co., took a Coal mine on lease for 15 years as the terms of paying a Minimum Rent of Rs. 10,000 per year, merging into a royalty of 50 paise per tonne. The output was as under:-

Year	Ist	2nd	3rd	4th
Output(in tonne)	16,000	18,000	20,000	22,000

In terms of the lease provided that the dead rent not merged in Royalty could be deducted out of future royalty in excess of the minimum, provided this recovery was made in the three years following the year in which the shortworking arose. Record these transactions in the books of the landlord.

#### Solution

Output	Royalty	Minimum	Royalty	Royalty Reserve		Amount
(in tonnes)	Receivable	Rent	Reserve	Utilised	Transferred	Received
	@.50p per				to P & L A/c	
	Ton	Rs.	Rs.	Rs.	Rs.	Rs.
16,000	8,000	10,000	2,000	-	-	10,000
18,000	9,000	10,000	1,000	-	-	10,000
20,000	10,000	10,000	-	-	-	10,000
22,000	11,000	10,000	-	1,000	1,000	10,000
	Output (in tonnes) 16,000 18,000 20,000 22,000	Output (in tonnes) Royalty Receivable @.50p per Ton   16,000 8,000   18,000 9,000   20,000 10,000   22,000 11,000	Output (in tonnes) Royalty Receivable @.50p per Minimum Rent   16,000 8,000 10,000   18,000 9,000 10,000   20,000 10,000 10,000   22,000 11,000 10,000	Output (in tonnes) Royalty Receivable @.50p per Minimum Rent Royalty Reserve   Ton Rs. Rs.   16,000 8,000 10,000 2,000   18,000 9,000 10,000 1,000   20,000 10,000 10,000 -   22,000 11,000 10,000 -	Output (in tonnes)Royalty Receivable @.50p perMinimum RentRoyalty ReserveRoyalty UtilisedTonRs.Rs.S.16,0008,00010,0002,000-18,0009,00010,0001,000-20,00010,00010,00022,00011,00010,000-1,000	Output (in tonnes)Royalty Receivable @.50p perMinimum RentRoyalty ReserveRoyalty ReserveRoyalty UtilisedTransferred to P & L A/c16,0008,00010,0002,00018,0009,00010,0001,00020,00010,00010,00022,00011,00010,000-1,0001,000

#### **CALCULATION TABLE**

# **Books of Landlord (lessor)**

# JOURNAL

1st Year Dec31	Lessee's A/c To Royalty Receivable A/c To Royalty Reserve A/c (For amount of royalty receivable earned and the excess of minimum rent transferred to royalty reserve A/c)	Dr.	10,000	8,000 2,000
Dec31	Cash A/c	Dr.	10,000	
	To Lessee's A/c (For amount received from the lessee)			10,000
Dec31	Royalty receivable A/c	Dr.	8,000	
	To Profit & Loss A/c (For royalty receivable account transferred to Profit & Loss A/c)			8,000
2nd year Dec31	Lessee's A/c	Dr.	10.000	
	To Royalty Receivable A/c To Royalty Reserve A/c (For amount of royalty receivable earned and the excess of minimum rent transferred to royalty reserve a/c)			9,000 1,000
Dec31	Cash A/c	Dr.	10,000	
	To Lessee's A/c (For amount received from the lessee)			10,000
Dec31	Royalty receivable A/c	Dr.	9,000	
	To Profit & Loss A/c (For royalty receivable account transferred to Profit & Loss A/c)			9,000

3rd year Dec31	Lessee's A/c	Dr.	10,000	
	To Royalty Receivable A/c (For royalty receivable earned)			10,000
Dec31	Cash A/c	Dr.	10,000	
	To Lessee's A/c (For amount received from the lessee)			10,000
Dec31	Royalty receivable A/c	Dr.	10,000	
	To Profit & Loss A/c (For royalty receivable account transferred to Profit & Loss A/c)			10,000
4th year Dec31	Lessee's A/c	Dr.	11,000	
	To Royalty receivable A/c (For royalty receivable earned)			11,000
Dec31	Cash A/c Royalty Reserve A/c	Dr. Dr.	10,000 1,000	
	To Lessee's A/c (For royalty reserve written off to the extent of shortworkings recouped by lessee and the balance received in cash)			11,000
Dec 31	Royalty Receivable A/c Royalty reserve A/c	Dr. Dr.	11,000 1,000	
	To Profit & Loss A/c (For royalty receivable and the amount of royalty reserve A/c to the extent of irrecoverable shortworkings transferred to Profit & Loss A/c)			12,000

Dr.					Cr.
1st year		Rs.	1st Year		Rs.
Dec31	To Royalty		Dec31	By Cash A/c	10,000
	Receivable A/c	8,000			
	To Royalty				
	Reserve A/c	2,000			
		10,000			10,000
2nd year			2nd year		
Dec31	To Royalty		Dec31	By Cash A/c	10,000
	Receivables A/c	9,000			
	To Royalty				
	Reserve A/c	1,000			
		10,000			10,000
3rd year			3rd year		
Dec31	To Royalty				
	Receivable A/c	10,000	Dec31	By Cash A/c	10,000
4th year			4th year		
Dec31	To Royalty		5		
	Receivable A/c	11,000	Dec31	By Cash A/c	10,000
		,		By Royalty	1,000
				Reserve A/c	,
		11,000			11,000

# Ledger Lessee's A/c

### **Royalty Receivable Account**

1st year Dec31	To P & L A/c	Rs. 8,000 8,000	1st year Dec31	By Lessee's A/c	Rs. 8,000 8,000
2nd year			2nd year		
Dec31	To P & L A/c	9,000	Dec31	By Lessee's A/c	9,000
		9,000			9,000
3rd year			3rd year		
Dec31	To P & L A/c	10,000	Dec31	By Lessee's A/c	10,000
		10,000			10,000
4th year			4th year		
Dec31	To P & L A/c	11,000	Dec31	By Lessee's A/c	11,000
		11,000			11,000

1st year Dec31	To bal c/d	Rs. 2,000	1st year Dec31	By Lessee's A/c	Rs. 2,000
2nd year Dec31	To bal c/d	3,000	2nd year Jan 1 Dec31	By bal b/d By Lessee's A/c	2,000 1,000 3,000
3rd year Dec31	To bal c/d	3,000	3rd year Jan 1	By bal b/d	3,000
4th year Dec31 Dec31	To Lessee's A/c To P & L A/c	1,000 1,000	4th year Jan 1	By bal. b/d	3,000
Dec31	To bal c/d	1,000 3,000	5th year		3,000
			Jan 1	By bal b/d	1,000

## **Royalty Reserve Account**

### Sub lease

Some times the terms of the original lease may empower the lessee to sublet a part of the land or mine to another person as a sub-lease.

It is usual that the terms of agreement between A(original lessee) and B (original lessor) will be quite different to those between A (original lessee) and C (sub lessee).

The position of A will be two-fold: as lessee paying royalties to B as landlord receiving royalties to C. First, as lessee A will prepare the following Accounts:

- (i) Royalty payable Account.
- (ii) Lessor or landlord's Account i.e., the account of B.
- (iii) Shortworkings Recoverable Account.

Secondly, as landlord A will maintain the following accounts:-

- (i) Royalty Receivable Account.
- (ii) Sub-lessee Account i.e. the account of C.

(iii) Royalty Reserve Account.

A will prepare two analytical tables in his books. First Analytical Table for the calculation of the royalties payable to B and the second Analytical Table for the calculation of royalties receivable from C.

**Illustration-6** : A obtained on Ist Jan 1990, from B a lease of some coal bearing land. The term being a royalty of Rs. 0.50 per ton of coal raised subject to a minimum rent of Rs. 2,000 p.a. with a right of recoupment of shortworkings over the first four years of the lease.

A granted a sub-lease of part of the land to C and a royalty of Rs. 0.75 per ton merging into a minimum rent of Rs. 1,000 p.a. with a right of recoupment of shortworkings during the two years following the shortworkings.

Year	A(tons)	C(tons)	Total output(tons)
1990	2,200	800	3,000
1991	2,320	1,080	3,400
1992	2,600	1,400	4,000
1993	2,800	1,800	4,600
1994	3,600	2,400	6,000

The output for the first five years as follows:

Give the necessary Ledger Accounts in the books of A.

## Solution

1990 Dec31	To B (@ 50P.on 2,200 + 800 tons)	Rs. 1,500	1990 Dec31	By Royalties recei- veable A/c (@ 50P. on 800 tons) By Production A/c	Rs. 400 1,100
		1,500		5	1,500
1991 Dec31	To B (@50P.on 2,320 + 1,080 tons)	1,700	1991 Dec31	By Royalties receiveable A/c (@ 50P. on 1,080 tons) By Production A/c	540 1,160 1,700

## **Royalties Payable Account**

1992 Dec31	To B (@50P. on 2,600 + 1,400tons)	2,000	1992 Dec31	By Royalties recei- veable A/c By Production A/c	700 1,300 2,000
1993 Dec31	To B (@50P. on 2,800 + 1,800tons)	2,300 2,300	1993 Dec31	By Royalties recei- veable A/c By Production A/c	900 1,400 2,300
1994 Dec31	To B (@50P. on 3,600 + 2,400tons)	3,000 3,000	1994 Dec 31	By Royalties recei- veable A/c By Production A/c	1,200 1,800 3,000

The royalties paid on account of production done by C has been credited to Royalties payable account so that amount application on own production (i.e. production done by A) only is transferred to the Production Account)

# **Shortworkings Account**

1990	T. D. (D. 2000	Rs.	1990		Rs.
Dec31	- Rs.1,500)	500	Dec31	By bal c/d	500
1991		500	1991		
Jan01 Dec31	To bal b/d To B (Rs.2,000 - Rs_1 700)	500 300	Dec31	By bal c/d	800
	K3. 1,700)	800			800
1992			1992		
Jan01	To bal b/d	800 800	Dec31	By bal c/d	800 800
1993			1993		
Jan01	To bal b/d	800	Dec31 Dec31	By B By P & L A/c (Irrecoverable Shortworkings)	300 500
		800			800

B's	Account
-----	---------

1990		Rs	1990		Rs
Dec31	To Bank a/c	2,000	Dec31	By Royalty	10.
				Payable A/c	1,500
				By Short Workings	500
		2,000		A/c	2,000
1991		Rs.	1991		Rs.
Dec31	To Bank A/c	2,000	Dec31	By Royalty	
				Payable A/c	1,700
				By Short Workings	300
		2,000		A/c	2,000
1992			1992		
Dec31	To Bank A/c	2.000	Dec31	By Royalty	
		y		Payable A/c	2,000
		2,000			2,000
1002			1002		
1995 Dec31	To Short Workings	300	1995 Dec31	By Royalty	
Decor	A/c	500	Decor	Pavable A/c	2300
Dec31	To Bank A/c	2,000		,	
		2,300			2,300
1004			1004		
1994 Dec31	To Bank a/c	3 000	1994 Dec31	By Poyalty	
Decor		3,000	Decsi	Dy KUyany Davable a/c	3 000
				i ayabic a/c	5,000

# **Royalties Receivable Account**

1990		Rs.	1990		Rs.
Dec31	To Royalties Pay-		Dec31	By C(on 800 tons	
	able A/c	400		@ 75P.)	600
Dec31	To P & L A/c	200			
		600			600
1001			1001		
1991			1991		
Dec31	To Royalties Pay-		Dec31	By C(on 800 tons	
	able A/c	540		@ 75P.)	810
Dec31	To P & L A/c	270			
		810			810

1992			1992		
Dec31	To Royalties Pay-		Dec31	By C(on 800 tons	
	able A/c	700		@ 75P.)	1,050
Dec31	To P & L A/c	350			
		1,050			1,050
1002			1002		
1993 Dec21	To Deviation Devi		1993 Dec21	Der Clar 200 tans	
Decsi	To Royantes Pay-	000	Decsi	By C(on 800 tons	1.050
	able A/c	900		@ 75P.)	1,350
Dec31	To P & L A/c	450			
		1,350			1,350
1001			1004		
1994			1994		
Dec31	To Royalties Pay-		Dec31	By C(on 800 tons	
	able A/c	1,200		@ 75P.)	1,800
Dec31	To P & L A/c	600			
		1,800			1,800

# Shortworkings Suspense Account

1990		Rs.	1990		Rs.
Dec31	To Bal. c/d	400	Dec31	By C	
		400		(Rs.1,000-600)	400
1991			1991		400
Dec31	To Bal. c/d	590	Jan 1	By Bal. b/d	400
			Dec31	By C	
				(Rs.1,000-810)	190
		590			590
1992			1992		
Dec31	To C	50	Jan 1	By Bal. b/d	590
	To P & L A/c(Ir-				
	recoverable short-				
	workingss of 1990)	350			
	To Bal c/d	190			
		590			590
1993		Rs.	1993		Rs.
Dec31	To C	190	Jan 1	By Bal. b/d	190
		190			190

C's Account							
1990		Rs.	1990		Rs.		
Dec31	To Royalty Rece-		Dec31	By Bank A/c	1,000		
	ivable A/c	600					
Dec31	To Shortworkings						
	Suspense A/c	400					
		1,000			1,000		
1991			1991				
Dec31	To Royalty Rece-		Dec31	By Bank A/c	1,000		
	ivable A/c	810					
Dec31	To Shortworkings						
	Suspense A/c	190					
		1,000			1,000		
1992			1992				
Dec31	To Royalty Rece-		Dec31	By Shortworkings			
20001	ivable A/c	1,050	20001	Suspense A/c	50		
		,		By Bank A/c	1,000		
		1,050			1,050		
1993			1993				
Dec31	To Rovalty Rece-		Dec31	By Shortworkings			
	ivable A/c	1,350		Suspense A/c	190		
				By Bank A/c	1,160		
		1,350			1,350		
100/			100/				
Dec31	To Royalty Rece-		Dec31	By Bank A/c	1 800		
20031	ivable A/c	1 800	20031	Dy Dunk H C	1,000		
		1,000	-		1 200		
		1,800			1,800		

# **Production Account**

1990 Dec 21	T. D	Rs.		Rs.
Dec 31	ble A/c	1,100		
1991				
Dec 31	To Royalty Paya- ble A/c	1,160		
1992				
Dec 31	To Royalty Paya-			
	ble A/c	1,300		

1993			
Dec 31	To Royalty Paya-		
	ble A/c	1,400	
1004			
1994			
Dec 31	To Royalty Paya-		
	ble A/c	1,800	

### **Profit & Loss Account**

		Rs.	1990		Rs.
			Dec31	By Royalty Recei-	
				able A/c	200
			1001		
			1991 Dec31	By Royalty Recei-	
			Deesi	able $\Delta/c$	270
					270
			1992		
			Dec31	By Royalty Recei-	
				able A/c	350
			Dec31	By Shortworkings	
				Suspense A/c	350
1993		Rs.	1993		Rs.
Dec31	To Shortwork-		Dec31	By Royalty Recei-	
	ings	500		able A/c	450
			1004		
			1994 Dec31	By Royalty recei	
			Decsi	able o/c	600
				able a/c	000

## Royalties regarding Brick-making and Nazrana paid to landlord

The royalty for brick-making is paid on sand taken out at the rate of per cubic feet to the owner of the land.

Sometimes, in addition to royalty, landlord charges from the lessee a lumpsum amount in the very beginning which is known as Nazrana or Advance Royalty. In such a case a Nazrana Account is opened separately and whole of the amount divided by the period of the lease is debited to Profit & Loss A/c every year the amount so arrived. **Illustration-7**: A Brick Co., acquired on a 20 years lease, a large plot of land from Anoop for the purpose of geeing earth. The lease provides that:-

- (a) A premium or Nazrana of Rs. 10,000 is to be paid to the landlord on Ist Jan, 1982 when the period of the lease commenced; and
- (b) An annual royalty of 20 paise per 100 cubic feet of earth taken out is to be paid to him subject to a minimum rent of Rs. 2,000 per year, any shortworkings to be recouped out of future excess royalty. This annual royalty is to be paid on 31st Dec. each year.

The quantity of earth extracted by the lessee in 1982, 1983 and 1984 was 8,00,000; 9,00,000 and 12,00,000 cubic feet respectively.

Enter these transactions in the ledger of the three years in the books of A Brick Co.

### Solution

Year	Output	Royalties	Minimum Rent	S.W.	S.W. recouped	Unrecouped S.W transfe- rred to P & L a/c	Payment to land lord
1982	8,00,000	1,600	2,000	400	-	-	2,000
1983	9,00,000	1,800	2,000	200	-	-	2,000
1984	12,00,000	2,400	2,000	-	400	-	2,000

# Analytical table

### Lease premium or Nazrana Account

Dr.					Cr.
1982 Jan01	To Cash A/c	Rs. 10,000	1982 Dec31 Dec31	By P & L A/c By Bal c/d	Rs. 500 9,500
		10,000			10,000

1983 Jan01	To Cash A/c	9,500 9,500	1983 Dec31 Dec31	By P & L A/c By Bal c/d	500 9,000 9,500
1984 Jan01	To Cash A/c	9,000 9,000	1984 Dec31 Dec31	By P & L A/c By Bal c/d	500 8,500 9,000

# **Royalties Account**

Dr.					Cr.
1982 Dec31	To Anoop	Rs. 1,600	1982 Dec31	By P & L a/c	Rs. 1,600
	-	1,600			1,600
1983			1983		
Dec31	To Anoop	1,800	Dec31	By P & L a/c	1,800
		1,800			1,800
1984					
Dec31	To Anoop	2,400	Dec31	By P & L a/c	2,400
		2,400			2,400

# **Shortworking Account**

Dr.					Cr.
1982		Rs.	1982		Rs.
Dec31	To Anoop	400	Dec31	By Bal. c/d	400
		400			400
1983			1983		
Jan01	To Bal b/d	400	Dec31	By Bal. c/d	600
Dec31	To Anoop	200			
		600			600
1984			1984		
Jan01	To Bal b/d	600	Dec31	By Anoop	400
			Dec31	By Bal c/d	200
		600			600

Dr. 1982 Dec31	To Cash A/c	Rs. 2,000 2,000	1982 Dec31 Dec31	By Royalties A/c By S.W. A/c	Cr. Rs. 1,600 400 2,000
1983			1983		
Dec31	To Cash A/c	2,000	Dec31 Dec31	By Royalties A/c By S.W. A/c	1,800 200
		2,000			2,000
1984 Dec31 Dec31	To S.W.A/c To Cash A/c	400 2,000	1984 Dec31	By Royalties A/c	2,400
		2,400			2,400

**Anoop's Account** 

### No right to recoup shortworkings

Sometimes nothing is mentioned in the question about the recoupment of shortworkings. In such cases, shortworkings account is not to be opened at all and the landlord is to be paid the amount of royalties or the minimum rent, whichever be the higher. There is no need to calculate the short-workings in such type of problems.

### 4.5 SUMMARY

Royalty is a periodical payment based on output or sale for the use of a certain asset or right like mine, copyright or patent to its owner. Royalty account is a nominal account in nature and is synonymous with rent account. Before preparing the royalty accounts, a few points like name of landlord and lessee, period of lease commencement of agreement, royalty rates, minimum rent, right of recoupment of shortworkings and mode of payment to landlord should be noted down. While passing journal entries in the books of lessee, these may be three

situations- when minimum rent is more than royalty equal to royalty and less than royalty. In the books of the lessor or landlord, the accounting treatment will be the reverse of lessee. Sometimes, the terms of the original lease may empower the lessee to sublet a part of land or mine to another person as a sub-lease.

## 4.6 KEYWORDS

**Royalty**: It is a periodical payment based on output or sale for the use of a fixed asset or right to its owner.

**Lessor**: The person who is the owner of the assets and surrenders the right to its use to some other person and receives the consideration as royalty is known as lessor.

**Minimum Rent**: It is the minimum amount that the lessor or landlord must receive whatever be the production or sales in a particular year.

**Shortworking**: The excess of minimum rent over royalty calculated on the basis of output or sales is known as shortworking.

**Lessee**: The person who pays the royalty in consideration for the use of that asset is called lessee.

# 4.7 SELF ASSESSMENT QUESTIONS

- 1]
- (a) What do you understand by Royalty ? How does it differ from Rent?
  - (b) What is shortworking ? Give the rules of accounts in this connection.
- 2] Explain the following terms:
  - (a) Minimum Rent
  - (b) Sub -Lease
  - (c) Royalty Reserve
  - (d) Advance Royalty
  - (e) Re-coupment of Shortworkings

Pass the journal entries in the books of Lessee when :

- (a) Royalty is more than the minimum rent .
- (b) Royalty is less than the minimum rent .

4] Parbhat Coal Company took a lease of coal mine for a period of 10 years from 1st January, 1979 upon the terms of a royalty of 80 paise per ton with a minimum rent of Rs. 10,000 per annum with power to recoup shortworking over the first five years of the lease.

Output are as follows:

1979	4,000tons	1981	10,000tons	1983	25,000tons
1980	6,000tons	1982	16,000tons	1984	30,000tons

Prepare journal entries and ledger accounts in the books of Parbhat Coal Company.

5] On Ist January, 1978 Manoj Coal Co., Ltd. took a lease of Coal Mine from X at a Royalty of 50 paise per ton raised with a minimum rent of Rs. 5,000 per year and with a right to recoup shortworkings during the first four years of the lease. During the first five years, the output were as follows:

Years	1978	1979	1980	1981	1982
Output(Tons)	6,000	7,000	10,200	12,000	14,000

Give journal entries and write up the Minimum Rent A/c, Royalty A/c, Landlord's A/c and Shortworkings A/c in the books of Manoj Coal Co.

6] Rama Coal Company took a coal mine on lease for a period of 20 years from 1st Jan., 1992 on a royalty of Rs. 2 per tonne of the output payable half yearly on 30th June and 31st December. The Minimum Rent was fixed at Rs. 24,000 per year with power to recoup shortworkings over the first three years of the lease.

3]

The output was as follows:-

Half year ending 30th June, 1992	2,000tons
Half year ending 31st December, 1992	2,500tons
Half year ending 30th June, 1993	5,000tons
Half year ending 31st December, 1993	8,000tons
Half year ending 30th June, 1994	11,000tons
Half year ending 31st December, 1994	4,500tons

Rama Coal Company prepares its final accounts annually on 31st Dec. every year and the royalty which was due on 31st Dec., 1993 was in fact paid on 10th Jan. 1994.

You are required to record the above transactions in the ledger of the Rama Coal Company and also to show the items in the Profit & Loss A/c and Balance Sheet.

7] X leased a coal mine from Y on a royalty of 75 paise per ton with a minimum rent of Rs. 24,000 per annum. Each year's excess of minimum rent over the actual royalties was recoupable during the subsequent three years.

The lease, however, stipulated that in the event of strike, the minimum rent would be reduced proportionately.

The output was as follows:

1989	6,000tons
1990	18,000tons
1991	36,000tons
1992	50,000tons
1993	44,000tons(Strike for 2 months)
1994	20,000tons(Strike for 73 days)

Prepare necessary accounts in the books of X. Also show the amounts in each year's P & L A/c and Balance sheet.

8] The Binnie Colliery Company are lessee of a mine at a dead rent of Rs. 2,000 per annum merging into a royalty of 35 paise per ton. Dead Rent paid in excess of actual royalties is recoupable thereout during the five years succeeding the year in respect of which such excess was paid. In the event of a strike if the actual royalty was less than the dead rent, it was to discharge all rental obligations. The first year in respect of which the dead rent was payable expired on 31st December 1980. The excess paid in comparison to royalty in respect of first year was Rs. 2,000 excess paid in second year was Rs. 1,450 and excess paid third year was Rs. 350. In the fourth year actual royalties amounted to Rs. 2,750, in the fifth year Rs. 3,250, in the sixth year Rs. 3,600 and in the seventh year (in consequent of a strike) Rs. 1,850 only. Pass the necessary journal entries to record these transactions in the books of Binnie Colliery Company.

9] On 1st Jan., 1990 Tagore & Co., took a mine on lease. Under this lease there is payable a royalty of 80 paise per ton merging in a minimum rent of Rs. 10,000 per year with a right to recoup shortworkings over the first five years of the lease, but (1) the right to recoup shortworkings will not be in that year in which output will be less than 6,000tons. (2) In the year in which royalty will be more than minimum rent, only 40% of the excess will be used for recoupment of shortworkings.

During the first five years the coal raised was as below:-

Year	1990	1991	1992	1993	1994
Output in tons	5,000	8,000	12,000	15,000	20,000

Prepare necessary accounts in the books of Tagore & Co.

10] X Co. Ltd. hold a lease of minerals from Y for a period of 20 years from 1st Jan., 1989. Under this lease there is payable a royalty of 25 paise a ton merging in a minimum rent of Rs. 1,000 a year, payable half-yearly on 30th June and 31st Dec. They granted a sub-lease for 15 years from 1st July, 1989 to Z Co. Ltd., of

one-half of the area for a royalty of 50 paise a ton merging in a minimum rent of Rs. 750 a year, payable half-yearly on 30th June and 31st Dec.

X Co. Ltd. are entitled under the lease from Y to recoup Shortworkings out of subsequent excess workings throughout the term of lease, but the sub-lease only allows Z Co. Ltd. to recoup shortworkings out of excess workings, in any of the three half-years immediately following that in which the shortworkings occurred. Minerals were worked as follows:

	By X Co. Ltd.	By Z Co. Ltd.
Half-year ended 30.06.1989	500tons	-
Half-year ended 30.12.1989	625tons	375tons
Half-year ended 30.06.1990	2,150tons	450tons
Half-year ended 30.12.1990	3,150tons	450tons
Half-year ended 30.06.1991	2,800tons	900tons

Show the necessary accounts in the Books of X which are balanced on 30th June.

11] On 1st January, 1981, Shri Som Nath acquired on lease certain oil wells at a minimum rent of Rs. 24,000 per annum, merging into a royalty of Re.1 per ton of oil taken out. The shortworkings were recoverable in the next two years, but on the condition that if full shortworkings could not be recovered in the next year of the shortworkings, Som Nath will lose his right to recover 50% of the unrecovered balance of shortworkings.

The output of the first four years was 6,000 tons in first year, 15,000 tons in the second year, 30,000 tons in the third year and 28,000 tons in the fourth year.

Open the necessary accounts in the books of Shri Som Nath.

12] X, the owner of a patent of Sewing Machines, granted on 1st July, 1985, a licence for its manufacture to Y at a royalty of Rs. 20 per machine manufactured subject to a minimum rent of Rs. 50,000 per annum for the first two years and Rs. 60,000 per annum thereafter. If in any year the royalties calculated on the machines manufactured amounted to less than the minimum rent, Y has the right to recoup from the surplus during the next two years.

Number of machines manufactured was follows:

Upto 30th June, 1986	2,000 Machines
Upto 30th June, 1987	2,200 Machines
Upto 30th June, 1988	2,750 Machines
Upto 30th June, 1989	3,300 Machines
Upto 30th June, 1990	3,500 Machines

Assuming that the annual accounts are closed on 30th June, pass the journal Entries in the books of Y and prepare shortworkings account.

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