

4. <sup>Fixed recoupment</sup> Gokul Mines Co., took a lease from a landlord for a period of 10 years from 1-1-2010 on a royalty of ₹50 per ton of coal raised with a dead rent of ₹2,00,000 and power to recoup shortworkings during the first 4 years of the lease.

Year —	2010	2011	2012	2013	2014
Output —	2000	3000	4000	4500	5000

Prepare dead rent a/c [min], Royalties a/c and Landlord a/c in the books of Gokul mines Co.

⇒ Royalties Payable Chart

1	2	3	4	5	6	7	8	9	10	11
Year	Output	Minimum Rent	Royal-ty	Short work-ings	Surplus	Short worki-ngs recoup-ed	Exrecor-erable short worki-ngs	Short working Carried forward	Surplus after recoup-ment	Payment to landlord
2010	2000	2,00,000	1,00,000	1,00,000	-	-	-	1,00,000	-	2,00,000
2011	3000	2,00,000	1,50,000	50,000	-	-	-	1,00,000 + 50,000 = 1,50,000	-	2,00,000
2012	4000	2,00,000	2,00,000	-	-	-	-	1,50,000	-	2,00,000
2013	4500	2,00,000	2,25,000	-	25,000	25,000	1,50,000 - 25,000 = 1,25,000	-	-	2,00,000
2014	5000	2,00,000	2,50,000	-	50,000	-	-	-	-	2,50,000

Q91.

## Minimum rent a/c

Date	Particulars	J/F	Amount (₹)	Date	Particulars	J/F	Amount (₹)
2010	To Landlord a/c		2,00,000	2010	By Royalty a/c		1,00,000
					By Shortworking a/c.		1,00,000
			2,00,000				2,00,000
2011	To Landlord a/c		2,00,000	2011	By Royalty a/c		1,50,000
					By Shortworking a/c		50,000
			2,00,000				2,00,000

Q92

## Shortworking's a/c

Date	Particulars	J/F	Amount (₹)	Date	Particulars	J/F	Amount (₹)
2010	To Minimum rent a/c		1,00,000	2010	By Balance c/d		1,00,000
			1,00,000				1,00,000
2011	To Balance b/d		1,00,000	2011	By Balance c/d		1,50,000
	To Minimum rent a/c		50,000				1,50,000
			1,50,000				1,50,000
2012	To Balance b/d		1,50,000	2012	By Balance c/d		1,50,000
			1,50,000				1,50,000
2013	To Balance b/d		1,50,000	2013	By Royalty a/c		25,000
					By P&L a/c		1,25,000
			1,50,000				1,50,000

Royalty alc							
Dr							Cr
Date	Particulars	J/f	Amount (₹)	Date	Particulars	J/f	Amount (₹)
2010	To minimum rent alc.		1,00,000	2010	By P&L alc.		1,00,000
			1,00,000				1,00,000
2011	To Minimum rent alc		1,50,000	2011	By P&L alc		1,00,000
			1,50,000				1,50,000
2012	To Landlord alc.		2,00,000	2012	By P&L alc		1,50,000
			2,00,000				2,00,000
2013	To Shortworking alc.		25,000	2013	By P&L alc.		2,00,000
	To Landlord alc.		2,00,000				2,25,000
			2,25,000				2,25,000
2014	To Landlord alc		2,50,000	2014	By P&L alc		2,50,000
			2,50,000				2,50,000

Landlord alc							
Dr							Cr
Date	Particulars	J/f	Amount (₹)	Date	Particulars	J/f	Amount (₹)
2010	To Bank alc		2,00,000	2010	By Minimum rent alc		2,00,000
			2,00,000				2,00,000
2011	To Bank alc		2,00,000	2011	By Minimum rent alc		2,00,000
			2,00,000				2,00,000
2012	To Bank alc		2,00,000	2012	By Royalty alc		2,00,000
			2,00,000				2,00,000
2013	To Bank alc		2,00,000	2013	By Royalty alc		2,00,000
			2,00,000				2,00,000
2014	To Bank alc		2,50,000	2014	By Royalty alc		2,50,000
			2,50,000				2,50,000

5. Mr. Gupta wrote a book and got it published with national publishers in the following terms:

1. Royalties would be 15% of sale proceeds of each year.
2. Minimum payment of ₹10,000 p.a.

Gupta to revise the book when requested the publishers and submit the revised edition within 6 months of the request. If Gupta delays beyond 6 months, he has to pay National publishers @ ₹500 p.m. for the period of delay, further in the year of delay minimum payment was not applied.

Year.	-	2013	2014	2015
No. of copies sold	-	2000	4000	2000
Sale price of each copy	-	20	20	25

At the end of 2014 Gupta was requested to revise the book. The revised manuscript reached the publisher on 1-10-2015.

Pass the journal entries in the books of National Publishers.

⇒

Year	Sale price	No. of copies	Sale	Royalty (15%)	Minimum sent	Short working	Surplus	Slw recoup-ed	Slw carried forward	Slw interest-Verbal	pay-ment
2013	20	2000	40,000	6000	10,000	4000	-	-	-	4000	10,000
2014	20	4000	80,000	12,000	10,000	-	2000	-	-	-	12,000
2015	25	2000	50,000	7500	10,000	2500	-	-	-	-	7500 - 1500 = 6000



### Calculation of damages:

Delay in submitting revised manuscript in 3 months,  
i.e., July, August & September.

$$₹ 500 \times 3 = ₹ 1500$$

Since; Nothing is mentioned about the recovery of shortwork-  
-ing, no shortworking recovered.

### Journal Entries in the books of National Publishers.

Date	Particulars	L/f	Debit (₹)	Credit (₹)
2013	Royalty a/c _____ DM Shortworking a/c _____ DM To Mr. Gupta a/c [Being royalties due]		6000 4000	10,000
2013	Mr. Gupta's a/c _____ DM To Bank a/c [Being royalties paid]		10,000	10,000
2013	Profit & Loss a/c _____ DM To Royalties a/c [Being transfer of royalties]		6000	6000
2013	Profit & Loss a/c _____ DM To Shortworking a/c [Being irrecoverable shortwork- -king transfer]		4000	4000
2014	Royalties a/c _____ DM To Mr. Gupta's a/c [Being royalties payable]		12,000	12,000
2014	Gupta's a/c _____ DM To Bank a/c [Being royalties paid]		12,000	12,000

2014	Profit & loss a/c _____ Dr To Royalties a/c [Being royalties transfer]	12,000	12,000
2015	Royalties a/c _____ Dr To Mr. Gupta's a/c [Being royalties due]	7500	7500
2015	Gupta's a/c _____ Dr To Bank a/c To Fine a/c [Being royalties paid and fine/ damages recovered]	7500	6000 1500
2015	Fine/ damages recovered a/c _____ Dr To Profit & loss a/c [Being transfer of damages recovered]	1500	1500
2015	Profit & loss a/c _____ Dr To Royalties a/c [Being royalties transfer]	7500	7500

6] A colliery co., worked <sup>Floating equipment</sup> coal under a lease which provided for the payment of royalty at 50 paise per ton with a minimum ~~rent~~ annual rent of ₹17000, each year's excess of minimum rent over the actual royalty being recoverable during the subsequent three years. The lease, however, stipulated that, if in any year, the normal rent was not attained by stoppage of work for any reason, the minimum rent was to be regarded as having been reduced in proportion to the length of stoppage.

The output was as follows:

2005            4000 tons  
2006            28,000 tons

2007	38,000 tons
2008	46,000 tons
2009	30,000 tons
2010	50,000 tons

During 2009, there was stoppage of work for three months.  
Write up necessary accounts in the books of the company for  
six years ending 2010.

Royalty Payable chart

1	2	3	4	5	6	7	8	9	10	11
year	output	Minimum rent	Royalty	Short working	Surplus	Short working recouped	Excess - variable Short working	Short working covered forward	surplus after recoup- ment	Payment to landlord
2005	4000	17,000	2000	15,000	-	-	-	15000	-	17,000
2006	28,000	17,000	14,000	3,000	-	-	-	15000 + 3000	-	17,000
2007	38,000	17,000	19,000	-	2000	2000	-	15,000 - 2000 = 13,000	-	17,000
2008	46,000	17,000	23,000	-	6000	6000	13000 - 6000 = 7000	-	-	17,000
2009	30,000	17,000 - 4250 = 12750	15,000	2250	-	-	3000 - 2250 = 750	-	-	12750
2010	50,000	17,000	25,000	-	8000	-	-	-	25000 - 17000 = 8000	17000 + 8000 = 25,000

Note : 1. In this problem, we are not specifically asked to  
prepare minimum rent account. We are asked prepare only the  
necessary accounts. So, any one of the two methods can be followed  
can be followed, But it is preferable to follow without raising  
minimum rent account method, as it is easier.

2. Whenever there is stoppage of work in any particular year due to some reason, such as strike, lockout, accident etc., generally the minimum rent for that year will be reduced. The amount of reduction in minimum rent and the actual amount of minimum rent payable during that year depends upon the terms of the Royalty agreement as stated in the problem.

In this problem, we are told that, if there is stoppage of work in any year due to strike or accident, the minimum rent for the year will be reduced proportionately having regard to the length of stoppage. In 2009, there is stoppage of work for 3 months. So, for that year, the minimum rent will be reduced proportionately i.e., by  $\frac{3}{12}$  or  $\frac{1}{4}$  that means, the actual minimum rent for that year will be ₹17000 less  $(\frac{1}{4} \times 17000)$  ₹ 4250 i.e., ₹ 12,750.

In the Books of Colliery Co.  
Royalties Account

Dr.				Cr.			
Date	Particulars	J/F	Amount (₹)	Date	Particulars	J/F	Amount (₹)
31/12/2005	To Landlord a/c		2000	31/12/2005	By P&L a/c		2000
			2000				2000
31/12/2006	To Landlord a/c		14000	31/12/2006	By P&L a/c		14000
			14000				14000
31/12/2007	To Landlord a/c		17000	31/12/2007	By P&L a/c		19000
	To Shortworking a/c		2000				19000
			19,000				19000
31/12/2008	To Landlord a/c		17000	31/12/2008	By P&L a/c		23000
	To Shortworking a/c		6000				23000
			23,000				23000
31/12/2009	To Landlord a/c		12750	31/12/2009	By P&L a/c		15000
	To Shortworking a/c		2250				15000
			15000				15000



31/12 2010	To Landlord a/c	25000	31/12 2010	By P&L a/c	25000
		25,000			25,000

### Shortworkings Account

Dr.	Particulars	J/F	Amount (£)	Date	Particulars	J/F	Amount (£)	Cr.
31/12 2005	To Landlord a/c		15,000	31/12 2005	By Balance c/d		15000	
			15,000				15,000	
31/12 2006	To Balance b/d		15,000	31/12 2006	By Balance c/d		18,000	
	To Landlord a/c		3000					
			18,000				18,000	
31/12 2007	To Balance b/d		18,000	31/12 2007	By Royalties a/c		2000	
					By Balance c/d		16000	
			18,000				18,000	
31/12 2008	To Balance b/d		16,000	31/12 2008	By Royalties a/c		6000	
					By P&L a/c		7000	
					By Balance c/d		3000	
			16,000				16,000	
31/12 2009	To Balance b/d		3000	31/12 2009	By Royalties a/c		2250	
					By P&L a/c		750	
			3000				3000	

Note: The amount of irrecoverable shortworkings transferred to profit & loss a/c is arrived at as follows;

1 Amount of irrecoverable shortworkings transferred to P&L a/c in 2005;

The slw of 2005 amounted to £15000 slw should be recouped within the subsequent 3 years, i.e., by 2008. The amount of slw so far recouped was 2000 in 2007 plus £6000 in 2008) £8000, so the amount of irrecoverable slw was  $15000 - 8000 = £7000$

2] Amount of recoverable slw transferred to PEL a/c in 2006.  
 The slw of 2006 amounted to £3000. These a slw should be recouped within the next 3 years i.e., by 2009.

The amount of slw recouped in 2009 was £2250.

So, the amount of recoupable slw was  $(3000 - 2250) = £750$ .

Dr.

Landlord's a/c

Cr.

date	Particulars	J/F	amount (£)	date	Particulars	J/F	amount (£)
31/12/2005	To Bank a/c		17000	31/12/2005	By Royalties a/c By Shortworking a/c		2000 15000
			17000				17000
31/12/2006	To Bank a/c		17000	31/12/2006	By Royalties a/c By Shortworking a/c		14000 3000
			17000				17000
31/12/2008	To Bank a/c		17000	31/12/2008	By Royalties a/c		17000
			17000				17000
<del>31/12/2009</del>	<del>To Bank a/c</del>		<del>17000</del>	<del>31/12/2009</del>	<del>By Royalties a/c</del>		<del>17000</del>
			<del>17000</del>				<del>17000</del>
31/12/2009	To Bank a/c		12750	31/12/2010	By Royalties a/c		12750
			12750				12750
31/12/2010	To Bank a/c		25,000	31/12/2011	By Royalties a/c		25000
			25,000				25000

Fixed Recoupment, without minimum rent

7] Mr. Ram Rao took a mine on lease on 1-1-2001, Royalty is payable @ ₹5 per ton with a minimum rent of ₹60,000 p.a. Shortworkings can be recovered within first 4 years of lease.

Year	→	2001	2002	2003	2004	2005
output	→	4000	7000	6200	15000	18000

Prepare Royalties a/c, Shortworking a/c, Landlord's a/c in the books of Ram Rao.

⇒ Solution:

Royalties Payable chart

1	2	3	4	5	6	7	8	9	10	11
Year	output	Minimum rent	Royalty	short working	Surplus	short working recouped	recoverable short working	short working carried forward	Surplus after recoupment	Payment to landlord
2001	4000	60,000	20,000	40,000	-	-	-	40,000	-	60,000
2002	7000	60,000	35,000	25,000	-	-	-	40,000 + 25,000 = 65,000	-	60,000
2003	6200	60,000	31,000	29,000	-	-	-	65,000 + 29,000 = 94,000	-	60,000
2004	15000	60,000	75,000	-	15,000	15,000	94,000 - 15,000 = 79,000	-	-	60,000
2005	18000	60,000	90,000	-	30,000	-	-	-	-	90,000

Dr.

## Royalties alc

Date	Particulars	J/F	Amount (£)	Date	Particulars	J/F	Amount (£)
31/12/2001	To Landlord alc.		20,000	31/12/2001	By P&L alc.		20,000
			20,000				20,000
31/12/2002	To Landlord alc.		35,000	31/12/2002	By P&L alc.		35,000
			35,000				35,000
31/12/2003	To Landlord alc.		31,000	31/12/2003	By P&L alc.		31,000
			31,000				31,000
31/12/2004	To Shortworkings alc.		15,000	31/12/2004	By P&L alc.		75,000
	To Landlord alc.		60,000				75,000
			75,000				75,000
31/12/2005	To Landlord alc.		90,000	31/12/2005	By P&L alc.		90,000
			90,000				90,000

Dr.

## Shortworkings alc

Date	Particulars	J/F	Amount (£)	Date	Particulars	J/F	Amount (£)
31/12/2001	To Landlord alc.		40,000	31/12/2001	By Balance cld.		40,000
			40,000				40,000
1/1/2002	To Balance b/d		40,000	31/12/2002	By Balance cld.		65,000
31/12/2002	To Landlord alc.		25,000				65,000
			65,000				65,000
1/1/2003	To Balance b/d.		65,000	31/12/2003	By Balance cld.		94,000
31/12/2003	To Landlord alc.		29,000				94,000
			94,000				94,000
1/1/2004	To Balance b/d		94,000	31/12/2004	By Royalties alc.		15,000
			94,000		By P&L alc.		79,000
							94,000



Landlord's a/c							
date	Particulars	J/F	Amount (₹)	date	Particulars	J/F	Amount (₹)
31/12/2001	To Bank a/c		60,000	31/12/2001	By Royalties a/c		30,000
			60,000		By shortworking a/c		40,000
31/12/2002	To Bank a/c		60,000	31/12/2002	By Royalties a/c		60,000
			60,000		By shortworking a/c		35,000
31/12/2003	To Bank a/c		60,000	31/12/2003	By Royalties a/c		25,000
			60,000		By shortworking a/c		60,000
31/12/2004	To Bank a/c		60,000	31/12/2004	By Royalties a/c		31,000
			60,000		By shortworking a/c		29,000
31/12/2005	To Bank a/c		90,000	31/12/2005	By Royalties a/c		60,000
			90,000				60,000
							90,000
							90,000

8] <sup>Lessee</sup> Ramesh wrote a book on financial accounting and got it published with <sup>Lessee</sup> Himalaya Publishing House on the terms that royalties will be paid at ₹5 per copy sold subject to a minimum rent of ₹15,000 p.a., with a right of recoupment of shortworking over the first 4 years of the royalty agreement. The details as under <sup>fixed recoupment</sup>

Year	2006	2007	2008	2009	2010
No. of copies printed	1500	2000	3000	4000	5000
No. of copies sold	100	200	300	400	500

Prepare minimum rent alc, royalties alc, short working alc, Ramesh's alc in the books of Himalaya Publishing House.

$$\Rightarrow \text{No. of copies sold} = \text{O/S} + \text{No. of copies printed} - \text{C/S.}$$

$$2006 = - + 1500 - 100 = 1400$$

$$2007 = 100 + 2000 - 200 = 1900$$

$$2008 = 200 + 3000 - 300 = 2900$$

$$2009 = 300 + 4000 - 400 = 3900$$

$$2010 = 400 + 5000 - 500 = 4900$$

⇒

Royalties Payable Chart

1	2	3	4	5	6	7	8	9	10	11
year	output	minimum rent	Royalty	short working	Surplus	Short working recouped	moreover - stable short working	short working carried forward	Surplus after recoup- ment	Payment to landlord
2006	1400	15,000	7000	8000	-	-	-	8000	-	15,000
2007	1900	15,000	9500	5500	-	-	-	8000 + 5500 = 13,500	-	15,000
2008	2900	15,000	14,500	500	-	-	-	13,500 + 500 = 14,000	-	15,000
2009	3900	15,000	19,500	-	4500	4500	14,000 - 4500 = 9500	-	-	15,000
2010	4900	15,000	24,500	-	9500	-	-	-	-	24,500

# Minimum Rent a/c.

Qr.	Date	Particulars	J/f	Amount (₹)	Date	Particulars	J/f	Cr. Amount (₹)
	31/12/2006	To Ramesh's a/c		15000	31/12/2006	By Royalties a/c		7000
						By slw a/c.		8000
				15,000				15,000
	31/12/2007	To Ramesh's a/c.		15000	31/12/2007	By Royalties a/c		9500
						By slw a/c.		5500
				15000				15000
	31/12/2008	To Ramesh's a/c.		15000	31/12/2008	By Royalties a/c		14500
						By slw a/c.		500
				15000				15000

# Royalties a/c

Qr.	Date	Particulars	J/f	Amount (₹)	Date	Particulars	J/f	Cr. Amount (₹)
	31/12/2006	To Minimum Rent a/c		7000	31/12/2006	By P&L a/c.		7000
				7000				7000
	31/12/2007	To Minimum Rent a/c.		9500	31/12/2007	By P&L a/c.		9500
				9500				9500
	31/12/2008	To Minimum Rent a/c.		14500	31/12/2008	By P&L a/c.		14500
				14500				14500
	31/12/2009	To slw a/c		4500	31/12/2009	By P&L a/c.		19500
		To Ramesh's a/c.		15000				19500
				19500				19500
	31/12/2010	To Ramesh's a/c.		24500	31/12/2010	By P&L a/c		24500
				24500				24500

Shortworking a/c							
Dr.							Cr.
Date	Particulars	J/F	Amount (₹)	Date	Particulars	J/F	Amount (₹)
31/12/2006	TO Minimum sent a/c		8000	31/12/2006	By Balance c/d		8000
			8000				8000
31/12/2007	TO Balance b/d		8000	31/12/2007	By Balance c/d		13500
	TO Minimum sent a/c		5500				13500
			13500				13500
31/12/2008	TO Balance b/d		13500	31/12/2008	By Balance b/d		14000
	TO Minimum sent a/c		500				14000
			14000				14000
31/12/2009	TO Balance b/d		14000	31/12/2009	By Royalties a/c		9500
			14000		By P&L a/c		9500
							14000

Ramesh's a/c.							
Dr.							Cr.
Date	Particulars	J/F	Amount (₹)	Date	Particulars	J/F	Amount (₹)
31/12/2006	TO Bank a/c.		15000	31/12/2006	By Minimum sent a/c.		15000
			15000				15000
31/12/2007	TO Bank a/c		15000	31/12/2007	By Minimum sent a/c		15000
			15000				15000
31/12/2008	TO Bank a/c		15000	31/12/2008	By Minimum sent a/c		15000
			15000				15000
31/12/2009	TO Bank a/c.		15000	31/12/2009	By Royalty a/c		15000
			15000				15000
31/12/2010	TO Bank a/c		24500	31/12/2010	By Royalties a/c		24500
			24500				24500