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Practical Problem in the Chapter of
"Royalty"

Q E Coal Company took a mine on lease on a Royalty of 37½ paise per ton of Coal raised, with a dead rent of Rs. 30,000 per year and power to recoup short working during the first five years of the lease. The output for the first five years is as follows: 1st year 10,000 tons, 2nd year 48,000 tons, 3rd year 80,000 tons, 4th year 1,20,000 tons, 5th year 1,20,000 tons. Write up the Dead Rent Account, Royalties Account, Short working Account and Landlord Account in E Coal Company's Ledger.

Solution

Analytical Table:

| Year | Product | Royalty | Dead of minimum Rent | Short working | Short working Recouped | Amount paid | Unrecouped short working transferred to P&L A/c |
|-----------------------|--------------|----------|----------------------|---------------|------------------------|-------------|---|
| I st yr. | Tons. 10,000 | Rs 3,750 | Rs 30,000 | Rs 26,250 | Rs | Rs 30,000 | Rs |
| II nd yr. | 48,000 | 18,000 | 30,000 | 12,000 | — | 30,000 | — |
| III rd yr. | 80,000 | 30,000 | 30,000 | — | — | 30,000 | — |
| IV th yr. | 1,20,000 | 45,000 | 30,000 | — | 15,000 | 30,000 | — |
| V th yr. | 1,20,000 | 45,000 | 30,000 | — | 15,000 | 30,000 | — |

2

Date _____
Page _____

Dead Rent Account

| | | | | | |
|--------|-------------|------------------|--------|------------------|------------------|
| I yr. | To Landlord | Rs 30,000 | I yr. | By Royalties A/c | Rs 3,750 |
| | | | | By S.W.A/c | 26,250 |
| | | Rs <u>30000</u> | | | Rs <u>30,000</u> |
| II yr. | To Landlord | 30,000 | II yr. | By Royalties A/c | 18,000 |
| | | | | By S.W.A/c | 12,000 |
| | | Rs <u>30,000</u> | | | Rs <u>30,000</u> |

Royalties Accounts

| | | | | | |
|---------|------------------|-------------|---------|----------------|-------------|
| I yr. | To Dead Rent A/c | Rs 3,750 | III yr. | By P. & L. A/c | Rs 3,750 |
| II yr. | To Dead Rent A/c | 18,000 | II yr. | By P. & L. A/c | 18,000 |
| III yr. | To Landlord | 30,000 | III yr. | By P. & L. A/c | 30,000 |
| IV yr. | To Landlord | 45,000 | IV yr. | By P. & L. A/c | 45,000 |
| V yr. | To Landlord | 45,000 | V yr. | By P. & L. A/c | 45,000 |

Landlord Account

3

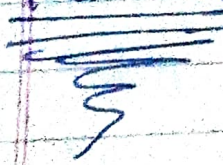
Date _____
Page _____

| | | | | | |
|---------|---------------------|----------|---------|------------------|-------|
| I yr. | To Bank A/c | Rs 30000 | I yr. | By Dead rent A/c | 30000 |
| II yr. | To Bank A/c | 30000 | II yr. | By " " " | 30000 |
| III yr. | To Bank A/c | 30000 | III yr. | By Royalties A/c | 30000 |
| IV yr. | To Bank A/c | 30000 | IV yr. | " " " | 45000 |
| | To Shortworking A/c | 15000 | | | |
| | Rs. | 45000 | | Rs. | 45000 |
| V yr. | To Bank A/c | 30000 | V yr. | By Royalties A/c | 45000 |
| | To Shortworking A/c | 15000 | | | |
| | Rs. | 45000 | | Rs. | 45000 |

Shortworking Account

| | | | | | |
|---------|------------------|-----------|---------|-----------------|--------|
| I yr. | To Dead Rent A/c | Rs 26,250 | I yr. | By Balance c/d | 26,250 |
| II yr. | To Balance b/d | 26,250 | II yr. | " " | 38,250 |
| | To Dead Rent A/c | 12,000 | | | |
| | Rs. | 38,250 | | | |
| III yr. | To Balance b/d | 38,250 | III yr. | " " | 38,250 |
| IV yr. | To Balance b/d | 38,250 | IV yr. | By Landlord A/c | 15000 |
| | | | | " balance A/c | 23250 |
| | Rs. | 38,250 | | Rs. | 38250 |
| V | To Balance b/d | 23,250 | V yr. | By Landlord A/c | 15000 |
| | | | | By P&L A/c | 8250 |
| | Rs. | 23,250 | | Rs. | 23250 |

The end



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