

UNIT 5 : ROYALTY ACCOUNTS

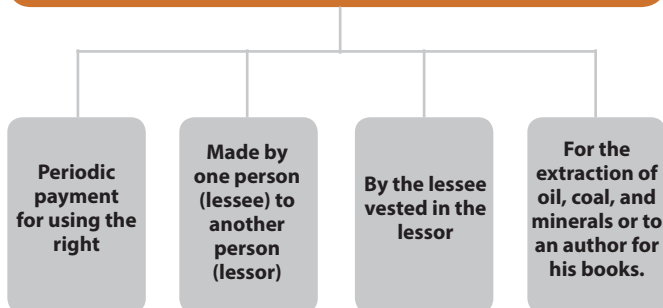
LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand the meaning of the term “Royalty”.
- ◆ Familiarize yourself with the Terminology related to Royalty Accounting:
 - ✦ Minimum Rent
 - ✦ Short-workings and Recoupment of Short-workings
 - Fixed
 - Floating
- ◆ Understand the Accounting Treatment in the books of Lessee and Lessor.

UNIT OVERVIEW

ROYALTY ACCOUNTING



5.1 INTRODUCTION OF ROYALTY AND RELATED TERMINOLOGIES

“Royalty” may be defined as:

- ◆ Periodic payment
- ◆ Made by one person (lessee) to another person (lessor)
- ◆ For using the right by the lessee vested in the lessor.

Examples:

1. For the extraction of oil, coal, and minerals.
2. To an author for sale of his books.
3. To a patentee for the use of patent.
4. For use of technical know how developed by a party

Thus, royalty means sum payable, generally based on output or sale, to the owner of mine, a patentee or an author or any other such person for use of rights vested in him. The person paying the royalty will treat this amount as an ordinary business expenditure. Royalties are generally debited to profit and loss account. Strictly speaking, royalty based on output should be debited to Trading or manufacturing account; royalty based on sales should be treated as selling expense and debited to profit and loss account. Before we understand the Accounting Treatment for Royalty, let us understand certain terms used in this unit.

Lease

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The party who conveys the rights is **lessor** and the one who is being granted the right to use in return for a series of payments is lessee.

Minimum Rent/Dead Rent/Rock Rent/Fixed Rent

Amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor.

Case I:

If in any year the Actual royalty is less than the Minimum rent

- Landlord will claim the minimum rent

Case II:

If in any year Actual royalty exceeds Minimum Rent

- Landlord will claim the actual royalty

Note: Minimum Rent may be the same for each year or may vary for different years according to the terms of agreement.

Example:

X has taken a lease of mine with minimum rent of ₹10,000 p.a. and with a rate of royalty at ₹ 2 per tonne of coal extracted. If coal extracted in the first year is 4,000 tonnes then Royalty comes to ₹ 8,000 (4,000 tonnes x ₹ 2 per tonne).

But X has to pay ₹10,000 as it is the minimum rent decided under the Royalty agreement.

Short Workings

It represents excess of Minimum Rent over the Actual Royalty.

Mathematically:

Short-workings = Minimum Rent – Actual Royalty

Conclusion:

Short- workings will only arise when the Actual royalty is less than the Minimum Rent. Also, short-workings will arise only when the same are allowed to be adjusted against future royalties. If the agreement is such that the lessee will have to pay a minimum rent irrespective of the benefits derived from the right vested to him by the lessor, and amount short-workings (minimum rent in excess of royalty computed as per agreement) cannot be adjusted in future years, then minimum rent will become expense of the lessee for that particular year.

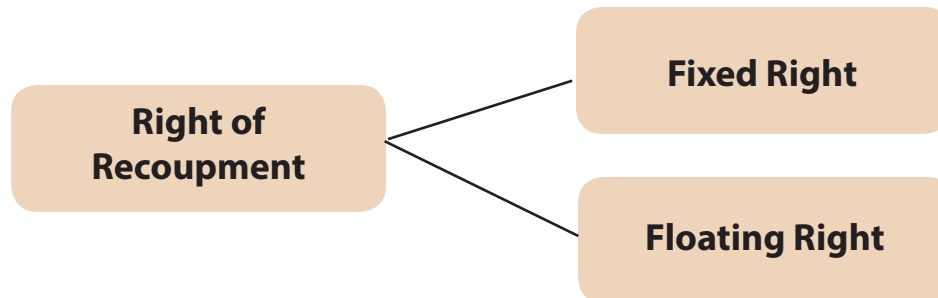
Continuing the above example:

Short-workings for the year will be ₹ 2,000 i.e. [10,000-8,000]

Recoupment of Short-workings

Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years.

This right is known as the right of Recoupment of Short-working.



Case I: Fixed Right of Recoupment

If the lessor promises the lessee to compensate the loss (short working) only for a fixed time period

Example:

If lessor promises to compensate the loss only during the first 4 years, the right is said to be fixed.

Case II: Floating Right of Recoupment

If the lessor promises the lessee to compensate the short working of **any year** in the next two or three years

Example:

If lessor promises to compensate the (short-working) of any year in coming 2 years

Then short-workings of 3rd year can be recouped in 4th and 5th year and short-workings of 8th year in 9th and 10th year.

5.2 ACCOUNTING TREATMENT IN THE BOOKS OF LESSEE

Entry 1:

When Royalty is Payable:

Royalty A/c -----Dr.	Actual Royalty
Short-workings A/c -----Dr.	Balancing Figure
To Landlord A/c	Minimum Rent

Entry 2:

For Payment to Landlord:

Landlord A/c -----Dr.	Minimum Rent
To Bank A/c	Minimum Rent

Entry 3:

For Transferring Royalty:

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.	Actual Royalty
To Royalty A/c	Royalty amount

Note:

1. The Journal Entries given below assume that there is a clause on Minimum Rent and Recoupment of Short- working subsequently:
2. Royalties based on output should be debited to Manufacturing or Production Account whereas royalty based on sales be treated as selling expenses should be debited to Trading Account or Profit and Loss Account.

Entry 4:

When Short-workings is recouped:

Royalty A/c -----Dr.	Actual Royalty
To Short-workings A/c	Recoupment
To Landlord A/c	Actual Payment

Entry 5:

For Irrecoverable Short-workings to Trading/Profit and Loss/Manufacturing/Production A/c:

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.	Amount Lapsed
To Short-workings A/c	Amount Lapsed

5.3 ACCOUNTING TREATMENT IN THE BOOKS OF LESSOR

Entry 1:

When Royalty is due:

Lessee A/c -----Dr.	Minimum Rent
To Royalty Receivable A/c	Actual Royalty

To Short-workings Allowable A/c

Balancing Figure

Entry 2:

When money is received:

Bank A/c -----Dr.
To Lessee A/c

Net Amount received
Minimum Rent

Entry 3:

When short-workings is recouped:

Short-workings Allowable A/c -----Dr.
To Lessee A/c

Amount of short-workings recouped
Amount of short-workings recouped

Entry 4:

For Irrecoverable amount of Short-workings

Profit and Loss A/c -----Dr.
To Short-workings Allowable A/c

Amount Lapsed
Amount Lapsed

Entry 5:

For Transferring Royalty Receivable to Trading/Profit and Loss/Manufacturing/Production A/c:

Royalty Receivable A/c -----Dr.
To Trading/Profit and Loss/Manufacturing/Production A/c -----

Actual Royalty
Actual Royalty

Practical Illustrations



ILLUSTRATION 1:

India Coal Ltd. got the lease of a colliery on the basis of ₹ 5 per tonne of coal raised subject to a Minimum Rent of ₹ 2,00,000 p.a. The tenant has the right to recoup short-workings during first four years of the lease and not afterwards.

The output in four years was:

Year	Output (Tonnes)
1	18,000
2	26,000
3	50,000
4	60,000
5	1,00,000

You are required to give the Journal entries and ledger accounts in the books of India Coal Ltd.

**SOLUTION****Computation of Royalty, Minimum Rent and Short-workings**

Year	Quantity in tonnes	Rate per tonne	Royalty	Minimum Rent	Short-workings
1	18,000	5	90,000	2,00,000	1,10,000
2	26,000	5	1,30,000	2,00,000	70,000
3	50,000	5	2,50,000	2,00,000	
4	60,000	5	3,00,000	2,00,000	
5	1,00,000	5	5,00,000	2,00,000	

Computation of Recoupment, Short-workings carried forward, Transferred to P&L Account

Year	Recoupment	Short-workings carried forward	Transferred to P&L Account	Payment to Landlord
1		1,10,000		2,00,000
2		1,80,000		2,00,000
3	50,000	1,30,000		2,00,000
4	1,00,000		30,000	2,00,000
5				5,00,000

Journal Entries in the Books of India Coal Ltd**Entries for Year 1****Entry 1:****When Royalty is Payable:**

Royalty A/c -----Dr.	90,000	
Short-workings A/c -----Dr.	1,10,000	
To Landlord A/c		2,00,000

Entry 2:**For Payment to Landlord:**

Landlord A/c -----Dr.	2,00,000	
To Bank A/c		2,00,000

Entry 3:**For Transferring Royalty:**

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.	90,000	
To Royalty A/c		90,000

Entries for Year 2**Entry 1:****When Royalty is Payable:**

Royalty A/c -----Dr.	1,30,000	
Short-workings A/c -----Dr.	70,000	

To Landlord A/c		2,00,000
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Entry 2:**For Payment to Landlord:**

Landlord A/c -----Dr.		2,00,000
To Bank A/c		2,00,000

Entry 3:**For Transferring Royalty:**

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.		1,30,000
To Royalty A/c		1,30,000

Entries for Year 3**Entry 1:****When Royalty is Payable:**

Royalty A/c -----Dr.		2,50,000
To Short-workings A/c -----Dr.		50,000
To Landlord A/c		2,00,000

Entry 2:**For Payment to Landlord:**

Landlord A/c -----Dr.		2,00,000
To Bank A/c		2,00,000

Entry 3:**For Transferring Royalty:**

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.		2,50,000
To Royalty A/c		2,50,000

Entries for Year 4**Entry 1:****When Royalty is Payable:**

Royalty A/c -----Dr.		3,00,000
To Short-workings A/c -----Dr.		1,00,000
To Landlord A/c		2,00,000

Entry 2:**For Payment to Landlord:**

Landlord A/c -----Dr.		2,00,000
To Bank A/c		2,00,000

Entry 3:**For Transferring Royalty:**

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.		3,00,000
To Royalty A/c		3,00,000

Entry 4:**For Irrecoverable Short-working:**

Profit and Loss A/c -----Dr.	30,000	
To Short-workings A/c		30,000

Entries for Year 5**Entry 1:****When Royalty is Payable:**

Royalty A/c -----Dr.	5,00,000	
To Landlord A/c		5,00,000

Entry 2:**For Payment to Landlord:**

Landlord A/c -----Dr.	5,00,000	
To Bank A/c		5,00,000

Entry 3:**For Transferring Royalty:**

Trading/Profit and Loss/Manufacturing/Production A/c -----Dr.	5,00,000	
To Royalty A/c		5,00,000

Ledger Accounts**Lessor Account**

1st Year To Bank A/c	₹ 2,00,000	By Royalty A/c By Short-workings	₹ 90,000 1,10,000
	2,00,000		2,00,000
2nd Year To Bank A/c	2,00,000	By Royalty A/c By Short-working	1,30,000 70,000
	2,00,000		2,00,000
3rd Year To Bank A/c	2,00,000	By Royalty A/c	2,00,000
4th Year To Bank A/c	2,00,000	By Royalty A/c	2,00,000
5th Year To Bank A/c	5,00,000	By Royalty A/c	5,00,000

Short-workings Account

1st Year To Lessor A/c	₹ 1,10,000	By Balance c/d	₹ 1,10,000
2nd Year To Balance b/d To Lessor A/c	1,10,000 70,000	By Balance c/d	1,80,000
	1,80,000		1,80,000

3rd Year To Balance b/d	1,80,000	By Royalty By Balance c/d	50,000 1,30,000
	1,80,000		1,80,000
4th Year To Balance b/d	1,30,000	By Royalty By P&L	1,00,000 30,000
	1,30,000		1,30,000

Royalty A/c

1st Year To Lessor	90,000	By P&L	90,000
2nd Year To Lessor	1,30,000	By P&L	1,30,000
3rd Year To Lessor To Short-workings	2,00,000 50,000	By P&L	2,50,000
	2,50,000		2,50,000
4th Year To Lessor To Short-workings	2,00,000 1,00,000	By P&L	3,00,000
	3,00,000		3,00,000
5th Year To Lessor	5,00,000	By P&L	5,00,000

**ILLUSTRATION 2**

Solve Illustration 1 from the point of view of Lessor.

Entries for Year 1**Entry 1:****When Royalty is due:**

Lessee A/c -----Dr.	2,00,000	
To Royalty Receivable A/c		90,000
To Short-workings Allowable A/c		1,10,000

Entry 2:**When money is received:**

Bank A/c -----Dr.	2,00,000	
To Lessee A/c		2,00,000

Entry 3:**For Transferring Royalty Receivable:**

Royalty Receivable A/c -----Dr.	90,000	
To Profit and Loss A/c		90,000

Entries for Year 2**Entry 1:****When Royalty is due:**

Lessee A/c -----Dr.	2,00,000	
To Royalty Receivable A/c		1,30,000
To Short-workings Allowable A/c		70,000

Entry 2:**When money is received:**

Bank A/c -----Dr.	2,00,000	
To Lessee A/c		2,00,000

Entry 3:**For Transferring Royalty Receivable:**

Royalty Receivable A/c -----Dr.	1,30,000	
To Profit and Loss A/c		1,30,000

Entries for Year 3**Entry 1:****When Royalty is due:**

Lessee A/c -----Dr.	2,50,000	
To Royalty Receivable A/c		2,50,000

Entry 2:**When short-workings is recouped:**

Short-workings Allowable A/c -----Dr.	50,000	
To Lessee A/c		50,000

Entry 3:**When money is received:**

Bank A/c -----Dr.	2,00,000	
To Lessee A/c		2,00,000

Entry 4:**For Transferring Royalty Receivable:**

Royalty Receivable A/c -----Dr.	2,50,000	
To Profit and Loss A/c		2,50,000

Entries for Year 4**Entry 1:****When Royalty is due:**

Lessee A/c -----Dr.	3,00,000	
To Royalty Receivable A/c		3,00,000

Entry 2:**When short-workings is recouped:**

Short-workings Allowable (Royalty Suspense) A/c-----Dr.	1,00,000	
To Lessee A/c		1,00,000

Entry 3:**When money is received:**

Bank A/c -----Dr.	2,00,000	
To Lessee A/c		2,00,000

Entry 4:**For Transferring Royalty Receivable:**

Royalty Receivable A/c -----Dr.	3,00,000	
To Profit and Loss A/c		3,00,000

Entry 5:**For Irrecoverable amount of Short-workings**

Profit and Loss A/c -----Dr.	30,000	
To Short-workings Allowable A/c		30,000

Entries for Year 5**Entry 1:****When Royalty is due:**

Lessee A/c -----Dr.	5,00,000	
To Royalty Receivable A/c		5,00,000

Entry 2:**When money is received:**

Bank A/c -----Dr.	5,00,000	
To Lessee A/c		5,00,000

Entry 3:**For Transferring Royalty Receivable:**

Royalty Receivable A/c -----Dr.	5,00,000	
To Profit and Loss A/c		5,00,000

Ledger Accounts**Lessee Account**

1st Year			
To Royalty Receivable	90,000	By Bank A/c	2,00,000
To Short-workings Allowable	1,10,000		
	2,00,000		2,00,000
2nd Year			
To Royalty Receivable	1,30,000	By Bank A/c	2,00,000
To Short-workings Allowable	70,000		
	2,00,000		2,00,000
3rd Year			
To Royalty Receivable	2,50,000	By Bank A/c	2,00,000
		By Short-workings Allowable	50,000
	2,50,000		2,50,000
4th Year			
To Royalty Receivable	3,00,000	By Bank A/c	2,00,000
		By Short-workings Allowable	1,00,000
	3,00,000		3,00,000
5th Year			
To Royalty Receivable	5,00,000	By Royalty	5,00,000

Royalty Receivable Account

1st Year			
To P&L Account	90,000	By Lessee	90,000
2nd Year			
To P&L Account	1,30,000	By Lessee	1,30,000
3rd Year			
To P & L Account	2,50,000	By Lessee	2,50,000
4th Year			
To P&L Account	3,00,000	By Lessee	3,00,000
5th Year			
To P&L Account	5,00,000	By Lessee	5,00,000

Short-workings Allowable A/c

1st Year			
To Balance c/d	1,10,000	By Lessor	1,10,000
2nd Year			
To Balance c/d	1,80,000	By Balance b/d	1,10,000
		By Lessor	70,000
	1,80,000		1,80,000
3rd Year			
To Lessor	50,000	By Balance b/d	1,80,000
To Balance c/d	1,30,000		
	1,80,000		1,80,000
4th Year			
To Lessor	1,00,000	By Balance b/d	1,30,000
To P&L	30,000		
	1,30,000		1,30,000

ILLUSTRATION 3

On 1st April, 2011 State Collieries Co. took on lease a mine from Omega Co. Under the contract, royalty was payable @ ₹ 10 per tonne of coal extracted with an annual minimum rent of ₹ 1,00,000. Short-workings, if any were recoverable only during the first three years of the contract. The output for the first four years is noted below:-

For the year ended 31st March 2012	6,000	tonnes
For the Year ended 31st March 2013	10,500	tonnes
For the Year ended 31st March 2014	13,000	tonnes
For the Year ended 31st March 2015	20,000	tonnes

Pass journal entries in the books of the landlord for all the four years.

SOLUTION

Date	Output (in tones)	Royalty @ ₹ 10 per tone ₹	Minimum Rent ₹	Short-workings allowable ₹	Short-workings recouped by lessee ₹	Short-workings irrecoverable ₹	Amount receivable from lessee ₹
31-3-12	6,000	60,000	1,00,000	40,000			1,00,000
31-3-13	10,500	1,05,000	1,00,000		5,000		1,00,000
31-3-14	13,000	1,30,000	1,00,000		30,000	5,000	1,00,000
31-3-15	20,000	2,00,000	1,00,000				2,00,000

In the books of Omega Journal Entries

			₹	₹
2012	State Collieries Co.	Dr.	1,00,000	
March 31	To Royalties Receivable Account			60,000
	To Short-workings allowable Account			40,000
	(Minimum rent receivable from State Collieries Co., royalties receivable being ₹ 60,000; excess of the former over the latter being credited to Short workings allowable Account.)			
”	Bank A/c	Dr.	1,00,000	
	To State Collieries Co.			1,00,000
	(Receipt of amount due from State Collieries Co.)			
”	Royalties Receivable Account	Dr.	60,000	
	To Profit & Loss Account			60,000
	(Transfer of Royalties Account to Profit & Loss Account)			

2013	State Collieries Co.	Dr.	1,00,000	
March 31	Short-workings allowable Account	Dr.	5,000	
	To Royalties Receivable Account			1,05,000
	(Minimum rent receivable from State Collieries Co., after adjusting ₹ 5,000 of short-workings allowable against royalties receivable)			
”	Bank	Dr.	1,00,000	
	To State Collieries Co.			1,00,000
	(Receipt of amount due from State Collieries Co.)			
”	Royalties Receivable Account	Dr.	1,05,000	
	To Profit & Loss Account			1,05,000
	(Transfer of Royalties Account to Profit & Loss Account)			
2014	State Collieries Co.	Dr.	1,00,000	
March 31	Short-workings allowable Account	Dr.	30,000	
	To Royalties Receivable Account			1,30,000
	(Minimum rent receivable from State Collieries Co., after adjusting of short-workings allowable ₹ 30,000 against royalties receivable)			
“	Bank	Dr.	1,00,000	
	To State Collieries Co.			1,00,000
	(Amount received from State Collieries Co.)			
”	Short-workings allowable Account	Dr.	5,000	
	To Profit & Loss Account			5,000
	(Balance of Shortworkings allowable count, being irrecoverable short-workings, transferred to Profit & Loss Account.)			
”	Royalties Receivable Account	Dr.	1,30,000	
	To Profit & Loss Account			1,30,000
	(Transfer of Royalties Receivable Account to Profit & Loss Account)			
2015	State Collieries Co.	Dr.	2,00,000	
Mar. 31	To Royalties Receivable Account			2,00,000
	(Amount due from State Collieries Co., for royalties receivable for the year)			
”	Bank	Dr.	2,00,000	
	To State Collieries Co.			2,00,000
	(Amount of royalties received from State Collieries Co.)			

”	Royalties Receivable Account Dr. To Profit & Loss Account Transfer of Royalties Receivable Account to Profit & Loss Account.	2,00,000	2,00,000
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SUMMARY

- ◆ “Royalty” may be defined as periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor.
- ◆ Minimum Rent is the amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor.
- ◆ Short-workings means excess of Minimum Rent over the Actual Royalty.
- ◆ Right of Recoupment implies that lessor allows the lessee the right to carry forward and set off the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years.

... TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. Short-workings means
 - (a) Excess of minimum rent over actual royalty amount.
 - (b) Excess of actual royalty amount over minimum rent.
 - (c) Excess of maximum rent over actual royalty amount.
2. The rent payable by the tenant to the landlord irrespective of the fact whether he has derived any benefit or not out of the property let out to him by the landlord is termed as
 - (a) Dead Rent (b) Fixed Rent (c) Either (a) or (b).
3. In case the right to recoup short workings has expired, the balance in the short-workings accounts is transferred to
 - (a) Landlord’s account.
 - (b) Profit and Loss account.
 - (c) Royalty account.

Theory Questions

1. Define Royalty. Give some examples where it is paid or received.
2. Write short notes on:
 - (i) Minimum Rent.
 - (ii) Recoupment of short-workings.

Practical Questions

Q1. A grants a mine on lease to B on 31.3.13 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March, 2014	3,000 tonnes
2015	3,200 tonnes
2016	4,000 tonnes
2017	5,000 tonnes

The minimum rent is fixed at ₹ 7,000 and short-workings recoupment is allowable throughout the period of lease. Compute the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016 and 2017.

Q2. ABC Collieries Co. Ltd. took from M/s XYZ a lease of coal field for a period of 25 years from 1st April, 2010 on a royalty of ₹ 25 per tonne of coal extracted with a Dead Rent of ₹ 2,20,000 a year with power to recoup short - workings during the first five years of the lease. The company closes its books of account on 31st March every year.

The output in the first five years of the lease was as follows:-

Year ended 31st March, 2011	2,000	tonnes
Year ended 31st March, 2012	3,600	tonnes
Year ended 31st March, 2013	9,000	tonnes
Year ended 31st March, 2014	15,000	tonnes
Year ended 31st March, 2015	20,000	tonnes

You are required to give journal entries for all the transactions relating to royalties for the five years in the books of ABC Collieries Co. Ltd.

ANSWERS/HINTS**MCQs**

1. (a)
2. (c)
3. (b)

Theoretical Questions

1. Royalty" may be defined as periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor. Examples: For the extraction of oil, coal, and minerals or to an author for sale of his books.
2. (i) Minimum Rent is the amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor. It is also called Dead Rent or Rock Rent or Fixed Rent.

(ii) **Short-Workings** represents excess of Minimum Rent over the Actual Royalty. Right of Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years as per the agreement.

Practical Questions

Answer 1

Statement showing amount of royalty payable

Date	Output (in tonnes)	Royalty @ ₹ 2 per tone	Minimum Rent	Short-workings allowable	Short-workings recouped	Amount payable
2014	3,000	6,000	7,000	1,000		7,000
2015	3,200	6,400	7,000	600		7,000
2016	4,000	8,000	7,000		1,000	7,000
2017	5,000	10,000	7,000		600	9,400

Answer 2

Date	Output (in tonnes)	Royalty @ ₹ 25 per tonne	Minimum Rent	Short workings	Short-workings being recouped	Short-workings irrecoverable Landlord	Amount payable
31-3-11	2,000	50,000	2,20,000	1,70,000			2,20,000
31-3-12	3,600	90,000	2,20,000	1,30,000			2,20,000
31-3-13	9,000	2,25,000	2,20,000		5,000		2,20,000
31-3-14	15,000	3,75,000	2,20,000		1,55,000		2,20,000
31-3-15	20,000	5,00,000	2,20,000		1,40,000		3,60,000

Journal Entries in the books of ABC Collieries Co. Ltd.

2011, March	31	Royalties Account Short-workings Account To M/s XYZ (Royalties @ ₹ 25 per tonne on 2,000 tonnes subject to a minimum of ₹ 2,20,000)	Dr. Dr.	50,000 1,70,000		2,20,000
	31	M/s XYZ To Bank... (Payment of the sum due to the landlord)	Dr.	2,20,000		2,20,000
	31	Profit and Loss Account To Royalties Account (Transfer of Royalties Account to Profit and Loss Account)	Dr.	50,000		50,000

2012, March	31	Royalties Account Short-workings Account To M/s XYZ (Royalties @ ₹ 25 per tonne on 3,600 tonnes plus ₹ 1,30,000 to landlord)	Dr. Dr.	90,000 1,30,000	2,20,000
	31	M/s. XYZ To Bank (Payment of the sum due to the landlord)	Dr.	2,20,000	2,20,000
	31	Profit and Loss Account To Royalties Account (Transfer of Royalties Account to Profit and Loss Account)	Dr.	90,000	90,000
2013, March	31	Royalties Account To M/s XYZ To short-workings Account (Royalties @ ₹25 per tonne on 9,000 tonnes less ₹ 5,000 recovered against short-workings payable to landlord.)	Dr.	2,25,000	2,20,000 5,000
		M/s XYZ To Bank (Payment of the sum due to landlord)	Dr.	2,20,000	2,20,000
		Profit and Loss Account To Royalties Account (Transfer of Royalties Account to Profit and Loss Account)	Dr.	2,25,000	2,25,000
2014, March	31	Royalties Account To M/s XYZ To Short-workings Account (Royalties @ ₹ 25 per tonne on 15,000 tonne less ₹ 1,55,000 recovered against short-workings payable to landlord.)	Dr.	3,75,000	2,20,000 1,55,000
		M/s XYZ To Bank (Payment of the sum due to landlord)	Dr.	2,20,000	2,20,000
		Profit and Loss Account To Royalties Account (Transfer of Royalties Account to Profit and Loss Account)	Dr.	3,75,000	3,75,000
2015, March	31	Royalties Account To M/s XYZ To Short-workings Account (Royalties @ ₹ 25 per tonne on 20,000 tonne less ₹ 1,44,000, balance in Short-workings account, recouped against amount payable to landlord)	Dr.	5,00,000	1,40,000 3,60,000

	M/s XYZ To Bank (Payment of the sum due to the landlord)	Dr.	3,60,000	3,60,000
	Profit and Loss Account To Royalties Account (Transfer of Royalties Account to Profit and Loss Account)	Dr.	5,00,000	5,00,000

