# Quadrant II-Notes

**Paper Cod** : COD 121

**Module** : Accounting treatment in the books of Lessee &
Lessor

---

**JOURNAL ENTRIES IN THE BOOKS OF USER (LESSEE/LICENCEE/PUBLISHER)**

➢ **Case – 1   When minimum rent account is not  maintained
             and   actual royalty is less than the minimum rent**

| Particulars | | Debit (Rs) | Credit (Rs) |
|---|---|---|---|
| Royalties Payable A/c | - Dr | xxx | |
| Short workings   A/c | -Dr | xxx | |
| To Lessor A/c | | | xxx |
| (Being Royalties @____ per ton on _____ tons) | | | |
| | | | |
| Lessor A/c | - Dr | xxx | |
| To Bank A/c | | | xxx |
| To Income tax  Payable A/c | | | xxx |
| (Being the amount paid in respect of Royalties.) | | | |
| | | | |
| Manufacturing/Profit & Loss A/c | - Dr | xxx | |
| To Royalties Payable A/c | | | xxx |
| (Being the transfer of Royalties payable  to manufacturing/ P/L a/c.) | | | |

**Note:**
- If the user is manufacturer and royalties are calculated on the basis of production, the actual royalties are debited Manufacturing Account. Where royalties are calculated on the basis of sales, they are debited to Profit and Loss Account.
- Incase of a limited company which does not prepare Manufacturing Account separately, the actual royalties are debited to Profit and Loss Account and they are shown in production or manufacturing section of the  Profit and Loss Account.

**Case – 2 -----WHEN MINIMUM RENT ACCOUNT IS MAINTAINED AND ACTUAL ROYALTY IS LESS THAN THE MINIMUM RENT**

| Sr. No | Particulars | | Debit (Rs) | Credit (Rs) |
|---|---|---|---|---|
| 1 | Minimum Rent A/c | - Dr | xxx | |
| | To Lessor A/c | | | xxx |
| | (Being the amount paid in respect of Royalties.) | | | |
| | | | | |
| 2 | Royalties Payable A/c | - Dr | Xxx | |
| | Shortworkings A/c | -Dr | xxx | |
| | To Minimum Rent A/c | | | Xxx |
| | (Being Royalties @____ per ton on _____ tons) | | | |
| | | | | |
| 3 | Lessor A/c | - Dr | Xxx | xxx |
| | To Bank A/c | | | xxx |
| | To Income tax Payable A/c | | | |
| | (Being the amount paid in respect of Royalties) | | | |
| 4 | Manufacturing/Profit & Loss A/c | - Dr | Xxx | |
| | To Royalties Payable A/c | | | xxx |
| | (Being the transfer of Royalties payable to manufacturing/ P/L a/c.) | | | |

**Case 3---- When actual royalty is more than the minimum rent**

| Sr. No | Particulars | | Debit (Rs) | Credit (Rs) |
|---|---|---|---|---|
| 1 | Royalties Payable A/c | - Dr | xxx | xxx |
| | To Lessor A/c | | | |
| | (Being the amount payable in respect of royalties for the period) | | | |

**2** Lessor A/c      - Dr     xx
    To Shortworkings   A/c     x    Xx
(Being the shortworking recouped during the year)     x


**3**      Lessor A/c      - Dr
      To Bank A/c
      To Income tax  Payable A/c
     (Being the amount paid in respect of royalties)


**4**      Profit & Loss A/c      - Dr
       To Shortworkings  A/c
     (Being the short working which cannot recouped transferred to Pro


**5**      Manufacturing/Profit & Loss A/c      - Dr
       To Royalties Payable A/c
     (Being the entry for closing  royalties payable account)


- Key points to Remember
1. When the royalty agreement does not contain a clause  for minimum rent , the question of Shortworkings and its recoupment does not arise.
2. The landlord is always entitled to get either the minimum rent or the actual royalty whichever is more subject to any adjustment for Shortworkings recouped.
3. Minimum Rent Account is opened generally in the year when actual royalty is less than the minimum rent.
4. In the event of a strike or lockout, the minimum rent can be reduced if there is an agreement between the parties.
5. Recoupable Shortworkings should be carried forward and shown in the Balance sheet  as a current asset.
6. Lapsed Shortworkings should be charged to Profit and Loss Account in the year in which it becomes irrecoverable.
7. In any particular year  if a part or whole of the Shortworkings lapse the landlord  can get only the minimum rent.

- ➢ **Accounting treatment in the books of Landlord (Lessor/authors /patent owner)**

   **A) Where the actual royalty is less than the minimum rent**

| Sr. No | Particulars | | Debit (Rs) | Credit (Rs) |
|---|---|---|---|---|
| 1 | Lessee A/c | - Dr | xxx | |
| | To Royalties Receivable A/c | | | xxx |
| | To Royalty Suspense / Shortworkings Allowable A/c | | | xxx |
| 2 | Bank A/c | - Dr | Xxx | |
| | Income Tax payable A/c | -Dr | xxx | xxx |
| | To Lessee A/c | | | |
| 3 | Royalties Receivable A/c | - Dr | xxx | |
| | To Profit & Loss A/c | | | xxx |

**B) Where the actual royalty is more than the minimum rent**

| Sr. No | Particulars | | Debit (Rs) | Credit (Rs) |
|---|---|---|---|---|
| 1 | Lessee A/c | - Dr | xxx | |
| | To Royalties Receivable A/c | | | Xxx |
| 2 | Royalty Suspense / Short working Allowable A/c - | Dr | xxx | xxx |
| | To Lessee A/c | | | |
| 3 | Bank A/c | - Dr | Xxx | |
| | Income Tax payable A/c | -Dr | xxx | xxx |
| | To Lessee A/c | | | |

| 4 | Royalty Suspense / Shortworkings Allowable A/c - To Profit / Loss A/c | Dr | xxx | xxx |
|---|---|---|---|---|
| 5 | Royalties Receivable A/c To Profit & Loss A/c | Dr | xxx | xxx |