

Royalty Accounting

1. Royalty is payable by a user to the owner of the property
2. Something on which an owner has some special rights.
3. A royalty agreement is prepared between the owner and the user of such property or rights.
4. Royalty may be based on the production or output, or sales.

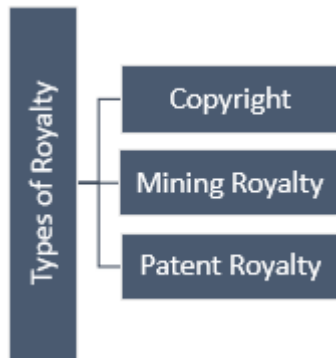
NOTE-

- a. Lessee-
He is allowed to use property, land, etc of the owner.
For use of property, he pays an amount called as ROYALTY
Publisher is a lessee & hence he pays royalty to the author.
- b. Lessor-
Owner of property
Being an owner of property, he charges ROYALTY for the use of his property by the lessee.
An author is a lesser, being owner of an intellectual property.

TYPES OF ROYALTIES

1. **COPYRIGHT –**
Legal right of ownership
Examples-
 - ✓ Author (of his book/s),
 - ✓ Photographer (on his photographs), or
 - ✓ Any such kind of intellectual works.Copyright royalty is payable by the publisher (lessee) of a book to the author (lessor) of that book or to the photographer, based on the sale made by the publisher.

2. **MINING ROYALTY –**
Lessee of a mine pays royalty to lessor(owner) of the mine
, Based on the output basis
Lessor- Owner
Lessee- Pays Royalty



3. **PATENT ROYALTY –**
Patent royalty is paid by the lessee to lessor
Right granted to an inventor
.

ROYALTY ACCOUNTING

Prof.Siddharth Kaul

QUESTION NO-1

- Mr. A is an author.
- Sultan Chand - Publisher
- Royalty @Rs.5/book
- Minimum Royalty of Rs.75,000 pa
- Publisher has right to recoup short workings during next 2 yrs.

Table showing Year & Sales

Year	No of Books Sold
2011	12000
2012	14000
2013	17000
2014	20000
2015	13000
2016	21000

Solution No-1

1	2	3=2XR5	4	5	6=4-3	7	8	9= 5-7
YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING G RECOUPED	SH.WORKING G LAPSED	NET ROYALTY PAYABLE
2011								
2012								
2013								
2014								
2015								
2016								

Solution No-1

1	2	3=2XR5	4	5	6=4-3	7	8	9= 5-7
YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
2011	12000							
2012	14000							
2013	17000							
2014	20000							
2015	13000							
2016	21000							

Solution No-1

1	2	3=2XRs.5	4	5	6=4-3	7	8	9= 5-7
YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
2011	12000	60000						
2012	14000	70000						
2013	17000	85000						
2014	20000	100000						
2015	13000	65000						
2016	21000	105000						

Solution No-1

1	2	3=2XR5	4	5	6=4-3	7	8	9= 5-7
YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
2011	12000	60000	75000					
2012	14000	70000	75000					
2013	17000	85000	75000					
2014	20000	100000	75000					
2015	13000	65000	75000					
2016	21000	105000	75000					

Solution No-1

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2011	12000	60000	75000	75000				
2012	14000	70000	75000	75000				
2013	17000	85000	75000	85000				
2014	20000	100000	75000	100000				
2015	13000	65000	75000	75000				
2016	21000	105000	75000	105000				

Solution No-1

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2011	12000	60000	75000	75000	15000			
2012	14000	70000	75000	75000	5000			
2013	17000	85000	75000	85000	0			
2014	20000	100000	75000	100000	0			
2015	13000	65000	75000	75000	10000			
2016	21000	105000	75000	105000	0			

Solution No-1

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YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
2011	12000	60000	75000	75000	15000			
2012	14000	70000	75000	75000	5000			
2013	17000	85000	75000	85000	0	10000	5000	75000
2014	20000	100000	75000	100000	0			
2015	13000	65000	75000	75000	10000			
2016	21000	105000	75000	105000	0			

Solution No-1

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YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
2011	12000	60000	75000	75000	15000			
2012	14000	70000	75000	75000	5000			
2013	17000	85000	75000	85000	0	10000	5000	75000
2014	20000	100000	75000	100000	0	5000		95000
2015	13000	65000	75000	75000	10000			
2016	21000	105000	75000	105000	0	10000		95000

Solution No-1

1	2	3=2XRs.5	4	5	6=4-3	7	8	9= 5-7
YEAR	SALES QTY	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING G RECOUPED	SH.WORKING G LAPSED	NET ROYALTY PAYABLE
2011	12000	60000	75000	75000	15000	0	0	75000
2012	14000	70000	75000	75000	5000	0	0	75000
2013	17000	85000	75000	85000	0	10000	5000	75000
2014	20000	100000	75000	100000	0	5000	0	95000
2015	13000	65000	75000	75000	10000	0	0	75000
2016	21000	105000	75000	105000	0	10000	0	95000

Thankyou

HIRE PURCHASE

Prof.Siddharth Kaul

HIRE PURCHASE

- **Hire purchase** is an arrangement for buying consumer goods, where the buyer makes an initial **down payment** and pays the **balance plus interest in instalments**.
- **Hire purchase** agreements can be held with banks, building societies, & finance companies.

HIRE PURCHASE

- Hire purchase is a method of financing of the fixed asset to be purchased on future date.
- Under this method of financing, the purchase price is paid in instalments.
- Ownership of the asset is transferred after the payment of the last instalment.

- ## Features of Hire Purchase:
1. The hire purchaser becomes the owner of the asset after paying the last instalment.
 2. Every instalment is treated as hire charge for using the asset.
 3. Hire purchaser can use the asset right after making the agreement with the hire

Advantages of Hire Purchase

- i. Financing of an asset through hire purchase is very easy.

- ii. Hire purchaser becomes the owner of the asset in future.

- iii. Hire purchaser gets the benefit of depreciation on asset hired by him/her.

- Disadvantages of Hire Purchase:**
- i. Ownership of asset is transferred only after the payment of the last instalment.
 - ii. The magnitude of funds involved in hire purchase are very small and only small types of assets like office equipment's, automobiles, etc., are purchased through it.
 - iii. The cost of financing through hire

Discussion on Hire Purchase

- Seller = Vendor
- Buyer/ Purchaser= Buyer
- Diff b/w HP & Installment Method

Installment – Ownership to buyer

Ex- Car, House

HP- Ownership is transferred on last payment of installment.

Generally, period is small.



Royalty

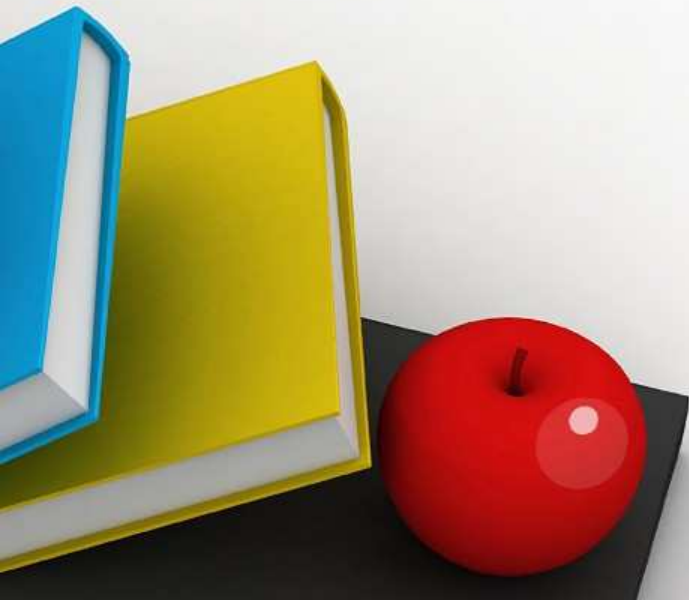
Accounting

Prof. Siddharth Kaul

Accounting Procedure

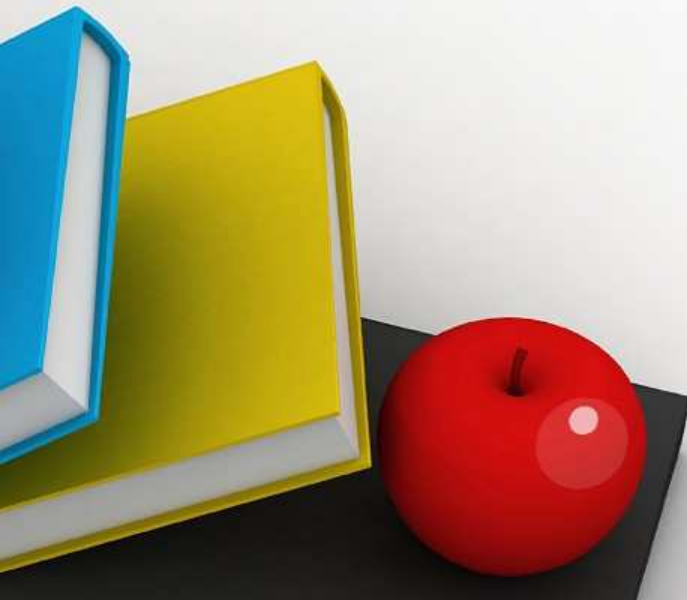
Royalty will be maintained in books of 2 Parties-

- Books of Lessee
- Books of Lessor



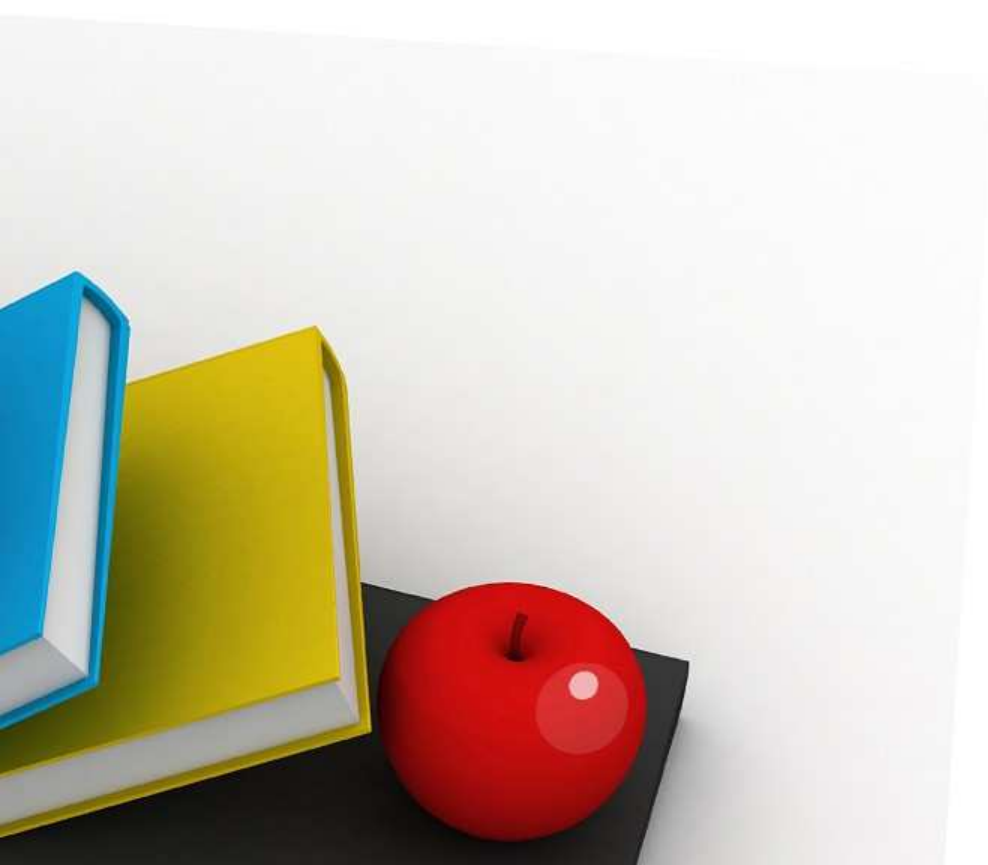
Lessee

- Who pays royly
- Ex: Publisher, Contractor



Lessor

- Owner of mine
- Author



I. In Books of Lessee

1. Royalty A/c
2. Landlord's A/c
3. Short Working A/c



1. Royalty A/c

- Nominal A/c
- Exp- Dr, Income-Cr
- Expense for a lessee
- Dr Side- To Landlord

To Minimum Rent

Closing A/c-



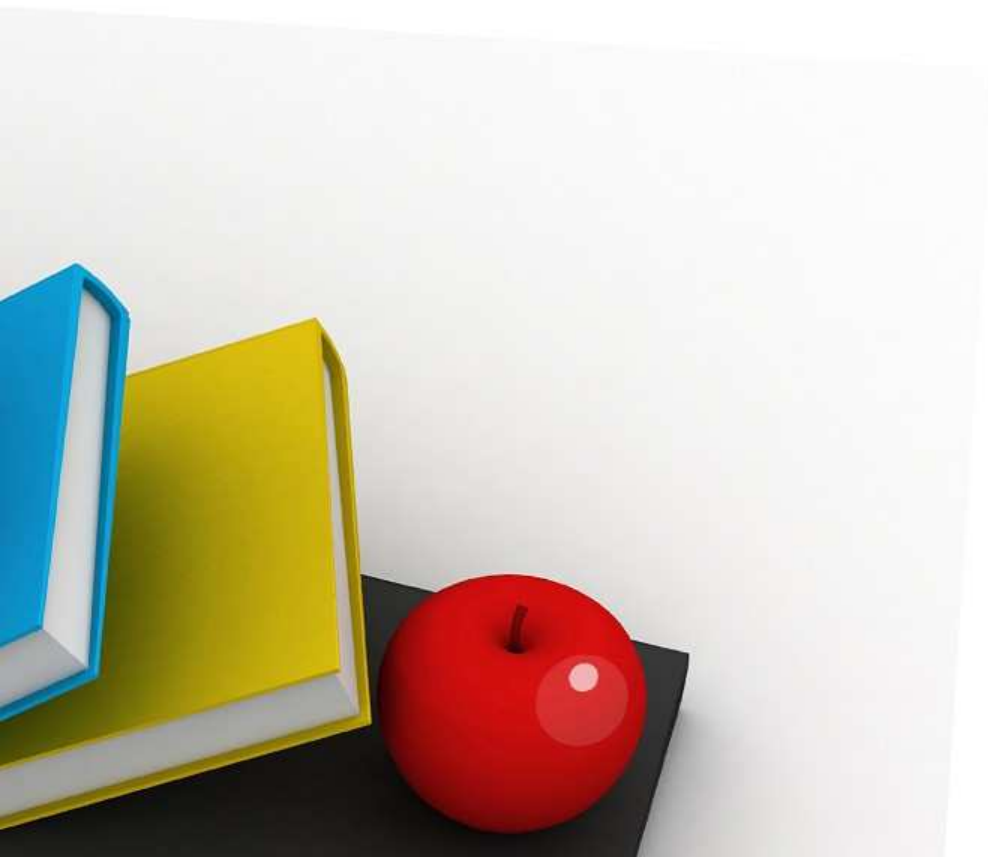
2. Landlord's A/c

- Personal A/C
- Credited with amount of Royalty & shortworking
- Dr. with amount of payment & recoupment of short workings



3.Shortworking A/C

- Real A/C



Journal Entries (Lessee)

3 situations exist-

- a) When Royalty $<$ Min. Rent
- b) When Royalty $=$ Min. Rent
- c) When Royalty $>$ Min. Rent



A). WHEN ROYALTY < MIN. RENT

- Ex: Amount of Royalty: 30,000

Min Rent: 35,000

- i. When Royalty is Payable
- ii. When Payment is made
- iii. Closing Royalty A/c (year end)



i. **When Royalty is Payable**

Royalty A/c

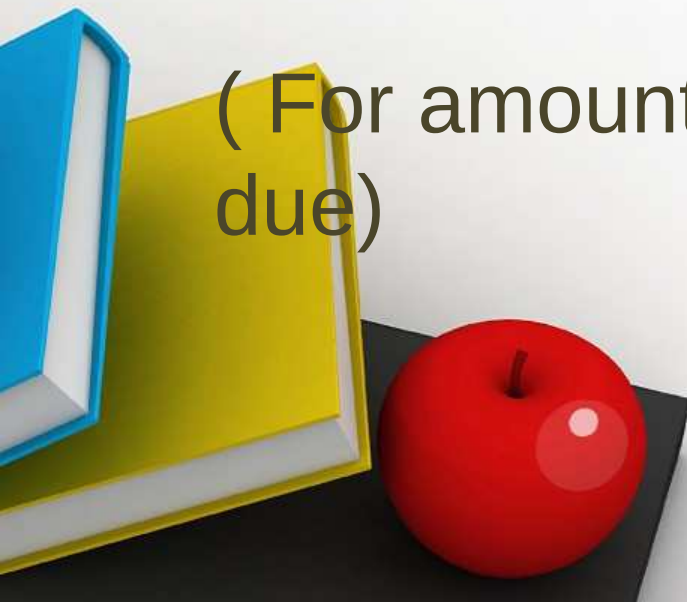
Dr. 30,000

Shortworkings A/c

Dr. 5,000

To Landlord's A/c 35,000

(For amount of royalty & shortworkings due)



ii. When Payment is made

Landlord's A/C Dr. 35,000

To Cash A/C

35,000

(For Minimum Rent paid to landlord)

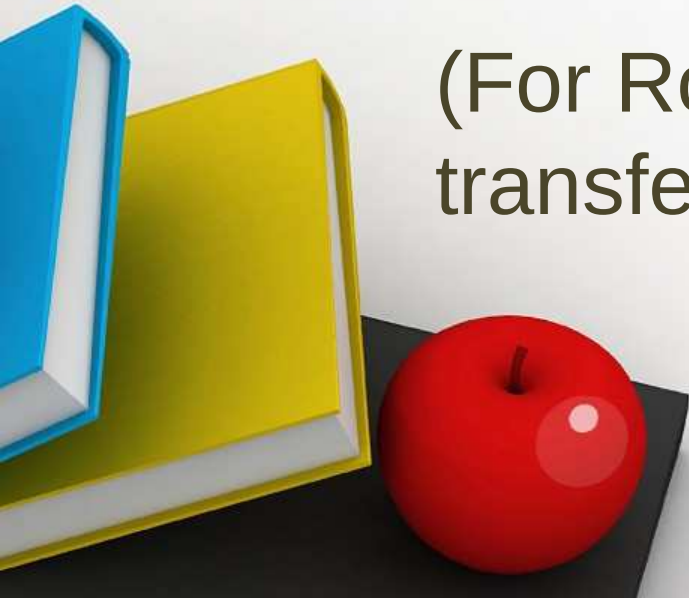


iii. For Closing of Royalty A/c

P&L A/C Dr. 30,000

 To Royalty A/C
30,000

(For Royalty A/C closed by
transferring it to P&L A/C)



B).WHEN ROYALTY = MIN. RENT

• Ex- Royalty = 35,000

Min. Rent = 35,000

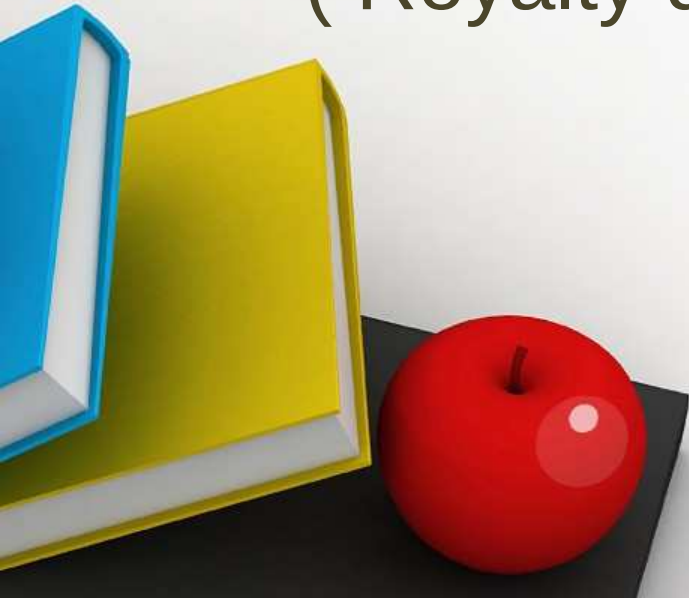
- i. When Royalty is Payable
- ii. When Payment is made
- iii. Closing Royalty A/c (year end)



i. When Royalty is Payable

Royalty a/c	Dr	35,000	
			35,000
			Landlord a/c

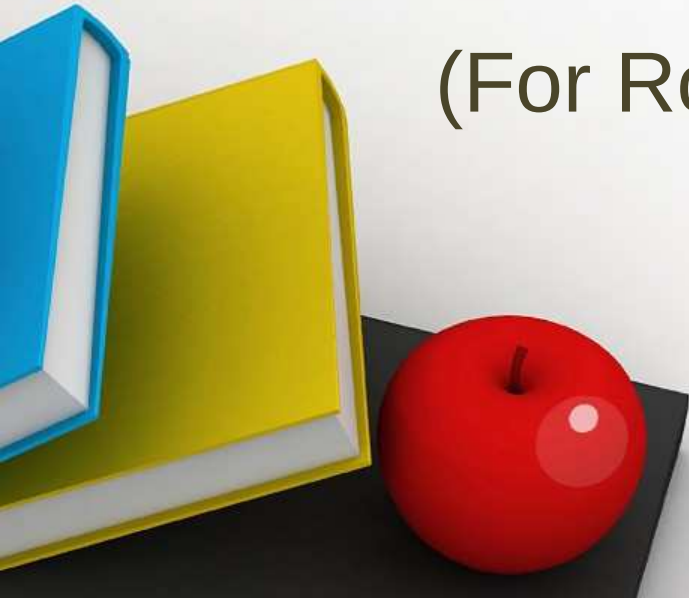
(Royalty due to Landlord)



ii. When Payment is Made

Landlords a/c	Dr.	35,000
	To	Cash a/c
35,000		

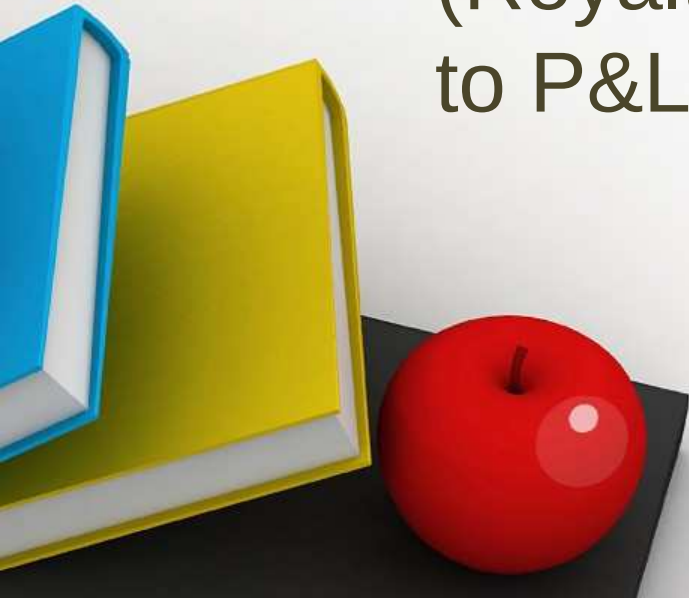
(For Royalty Paid to Landlord)



iii. Closing Royalty A/c

P&L a/c	Dr	35,000	
	To Royalty a/c		35,000

(Royalty a/c closed by transferring it to P&L a/c)



C. WHEN ROYALTY > MIN. RENT

Ex- Amt. of Royalty = 50,000

Min. Rent = 35,000

- i. When Royalty is Payable
- ii. When Payment is made
- iii. Closing Royalty A/c (year end)

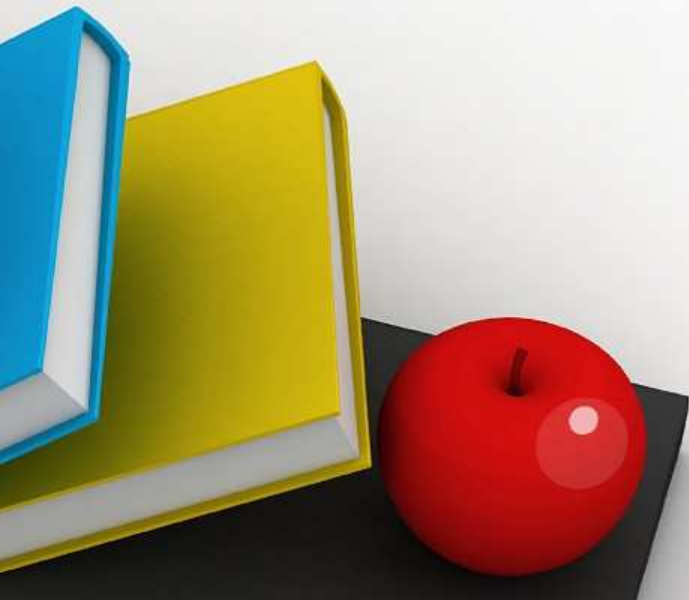


i. When Royalty is Payable

Royalty a/c Dr. 50,000

 To Landlord's A/c 50,000

(Royalty due to Landlord)



ii. When Payment is made

Landlord's a/c Dr. 50,000

 To Cash a/c
35,000

 To Sh.workings a/c
15,000

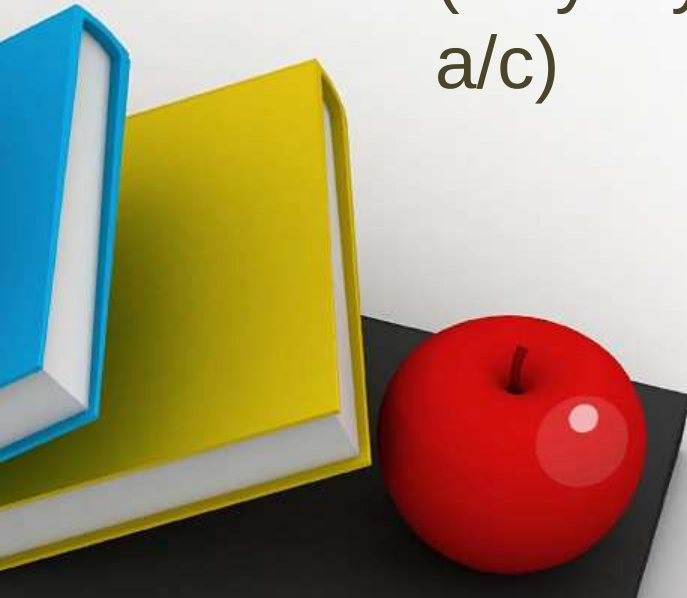
(Royalty paid to landlord)



iii. Closing Royalty A/c

P&L a/c	Dr	50,000	
	To Royalty a/c		50,000

(Royalty a/c closed by Transfg. It to P&L a/c)

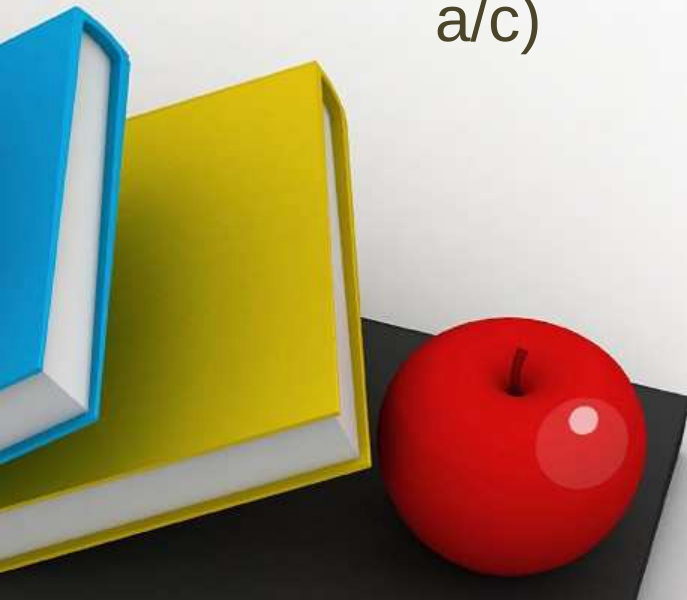


iv. For Closing Irrecoupable Shortworkings

P&L a/c Dr

To Shortworking's a/c

(For unrecouped shortworkings tranfd. To P&L a/c)



Numerical-2

- Bharat Coal Co- Lessee
- Raghav Coal Co- Lesser
- Mine taken by Bharat from Raghav for 20 yrs from 1Jan1994
- Royalty @80p per ton
- Min Rent= Rs.10,000 pa



Output is as follows-

Year	Tonnes
1994	4000
1995	7500
1996	15000
1997	20000
1998	30000

Draft journal entries & show necessary ledgers in books of

Lessee



Solution-2

	2	3=2 x 80p	4	5	6	7	8	9
YEAR	OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
1994	4000							
1995	7500							
1996	15000							
1997	20000							
1998	30000							



Solution-2

	2	3=2 x 80p	4	5	6	7	8	9
YEAR	OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROYALTY PAYABLE
1994	4000	3200						
1995	7500	6000						
1996	15000	12000						
1997	20000	16000						
1998	30000	24000						



Solution-2

2	3=2 x 80p	4	5	6	7	8	9
OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY PAID	SHORT WORKINGS	SH.WORKING RECOUPED	SH.WORKING LAPSED	NET ROY PAYAB
4000	3200	10000	10000	(6800)			
7500	6000	10000	10000	(4000)			
15000	12000	10000	12000	2000	2000		10000
20000	16000	10000	16000	6000	(4800+1200)	2800	10000
30000	24000	10000	24000	14000			

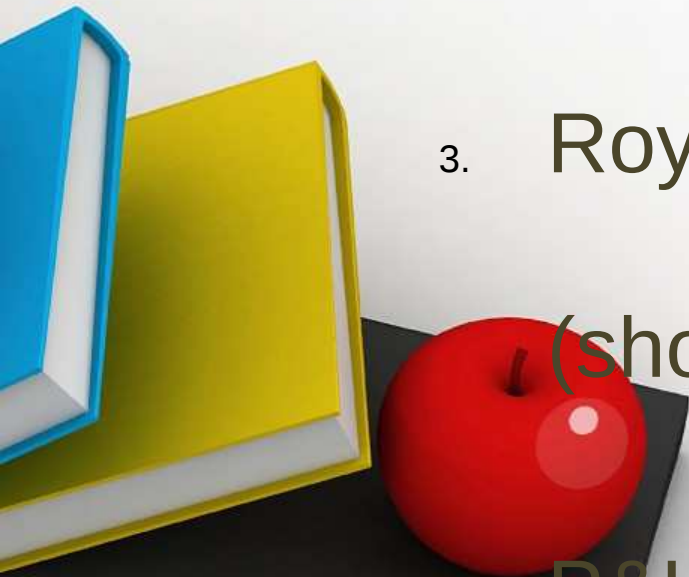


In Books of Lessor (Landlord)

1. Lessee A/c
2. Royalty Receivable A/c
3. Royalty Reserve A/c

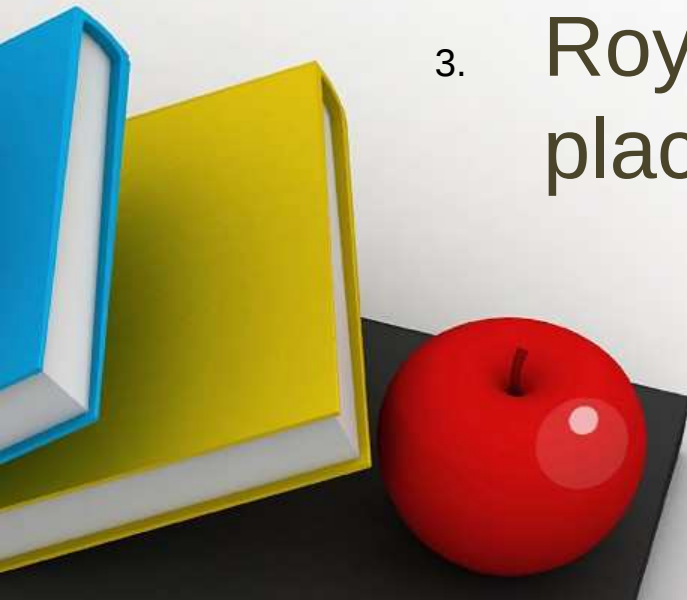
(shortworking)

P&L A/c



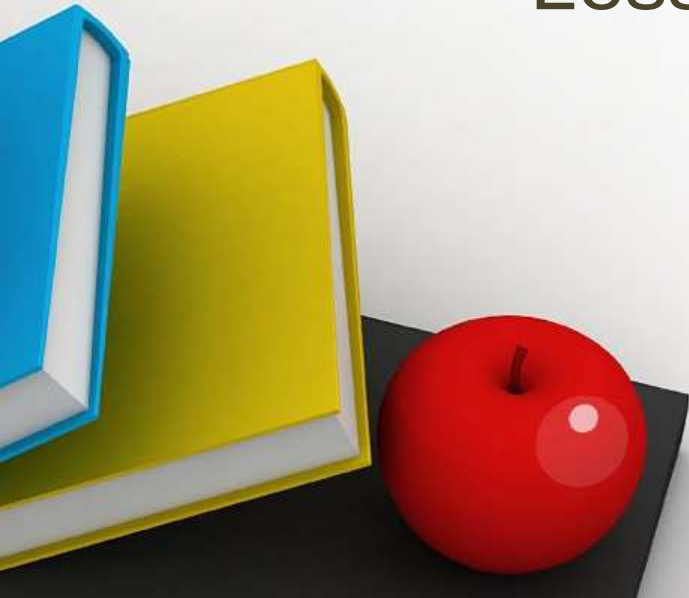
Note

1. Royalty received by landlord is an income to him.
2. Royalty Receivable A/c is credited in books of Landlord
3. Royalty Reserve A/c opened in place of Sh.working A/c



Example

- Royalty is Rs.8000
- Min Rent is Rs.10,000
- Journal-
Lessee



Journal-

1. Lessee A/c Dr. 10,000
 To Royalty Receivable A/c 8000
 To Royalty Reserve A/c
 2000

(Royalty Reserve A/C= Sh.Working A/c)

2. Cash A/c Dr 10000
 To Lessee A/c 10000

3. Royalty Receivable A/c Dr 8000

Numerical-3

(in books of
landlord)

- Coal Mine on Lease for 10 Years
- Min Rent= 10000 pa
- Royalty = 25 p per tonne

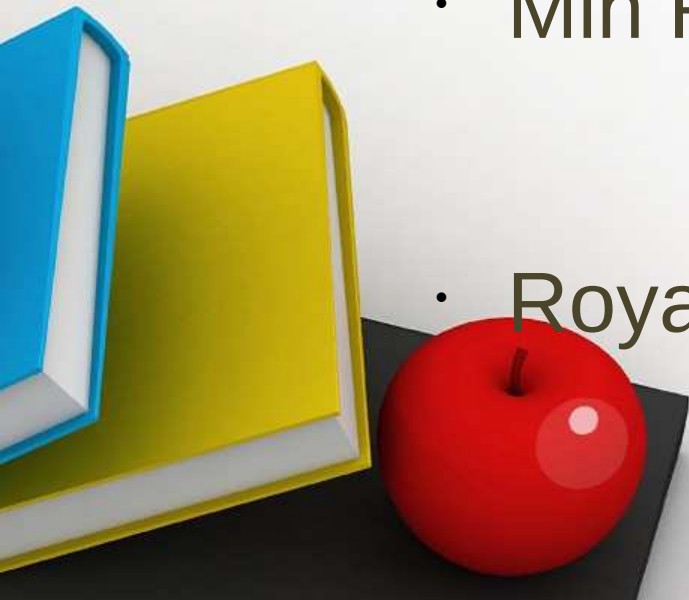
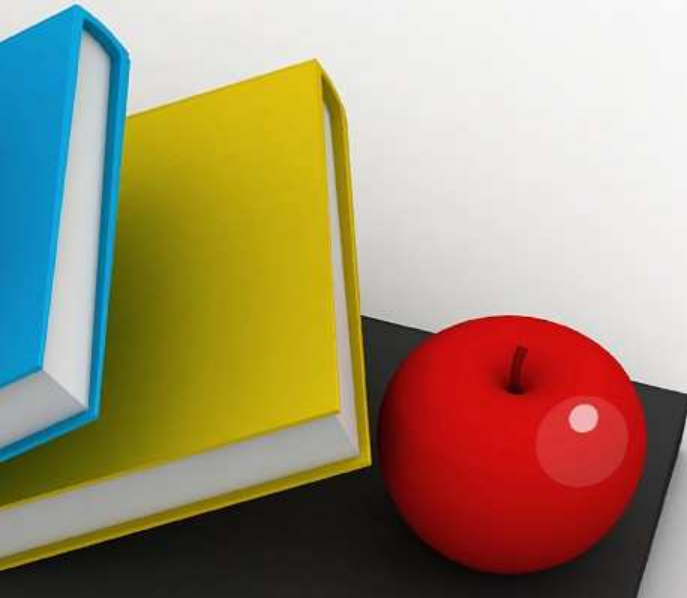


Table-

YEAR	OUTPUT(Tonnes)
1	32000
2	36000
3	40000
4	44000



(continued....)

- Money be deducted from future rent on excess of minimum
- Recovery made in 3 years following the year in which sh.working arise



Solution

	2	3=2 x 25p	4	5	6	7	8	9
YEAR	OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY RESERVE	SURPLUS	(ROYALTY RESERVE) UTILIZED	(ROYALTY RESERVE) TRANSFERRED TO P&L A/c	AMOUNT RECEIVED
	32000							
	36000							
	40000							
	44000							



Solution

	2	3=2 x 25p	4	5	6	7	8	9
YEAR	OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY RESERVE	SURPLUS	(ROYALTY RESERVE) UTILIZED	(ROYALTY RESERVE) TRANSFERRED TO P&L A/c	AMOUNT RECEIVED
	32000	8000	10000	2000				
	36000	9000	10000	1000				
	40000	10000	10000					
	44000	11000	10000		1000			



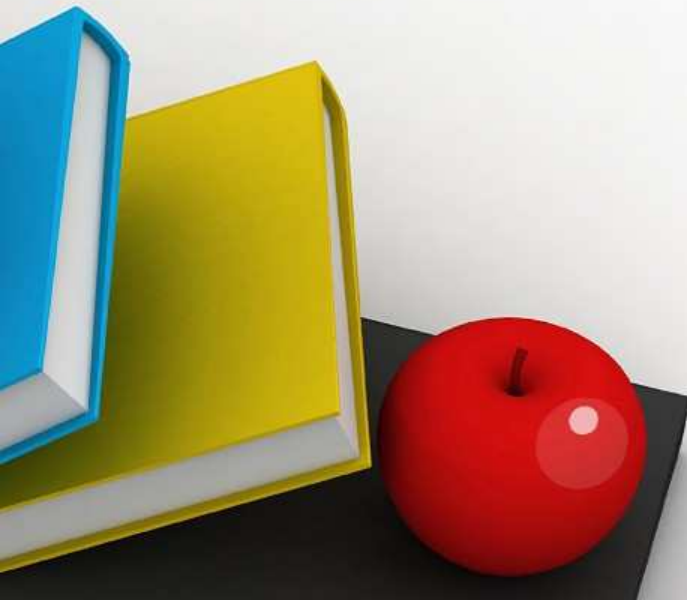
Solution

	2	3=2 x 25p	4	5	6	7	8	9
YEAR	OUTPUT	ACTUAL ROYALTY	MIN RENT	ROYALTY RESERVE	SURPLUS	(ROYALTY RESERVE) UTILIZED	(ROYALTY RESERVE) TRANSFERRED TO P&L A/c	AMOUNT RECEIVED
	32000	8000	10000	2000				10000
	36000	9000	10000	1000				10000
	40000	10000	10000					10000
	44000	11000	10000		1000	1000	1000	10000



Journals(Lessor)

- I. Min Rent $>$ Actual Royalty
- II. Min Rent = Actual Royalty
- III Min Rent $<$ Actual royalty



I. Min Rent > Actual Royalty

1. Lessee A/c Dr 10000 Actual
 Min Rent = 10000
 To Royalty Receivable A/c
 8000
 Reserve A/c To Royalty
 2000

(Royalty Reserve A/C= Sh.Working A/c)

2. Cash A/c Dr 10000
 To Lessee A/c 10000

3. Royalty Receivable A/c Dr 8000



II. Min Rent = Actual Royalty

1. Lessee A/c Dr 10000

To Royalty Receivable A/c
10000

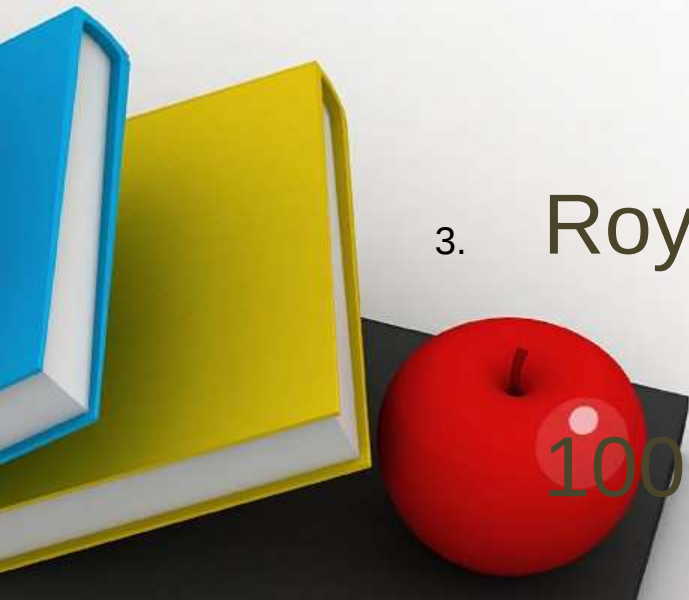
2. Cash A/c Dr 10000

To Lessee A/c 10000

3. Royalty Receivable A/c 10000

To P&L A/c

10000



III Min Rent < Actual royalty

• Lessee A/c Dr 15000
 Min Rent-10000,
 To Royalty Receivable A/c
 AR = 15000
 15000

• Cash A/c Dr 10000
 Royalty Reserve A/c 5000
 To Lessee A/c
 15000

• Royalty Receivable A/c 15000
 Royalty Reserve A/c 5000

