



Business Accounting

BY
S.SANGEETHA
ASST.PROFESSOR
BONSECOURS COLLEGE FOR WOMEN
THANJAVUR

**ROYALTY
ACCOUNT??**

Royalty account Meaning

- ❑ The owner of an asset such as mines quarries patent copy right etc., may allow another party namely lessee ,licencee ,publisher etc.,
- ❑ The right use that asset against some consideration .
- ❑ It is done as a business arrangement and consideration for this calculated with reference to the quantity produced or sold.
- ❑ This payment made to the owner by the user of the asset is called 'Royalty'

The Main Forms of Royalty

Mining royalty-to extract mineral and one from earth

The book publisher gives gratuity to the author or writer

For the use of design.

Types of Royalty

```
graph LR; A[Types of Royalty] --- B[Copyright]; A --- C[Mining Royalty]; A --- D[Patent Royalty]
```

Copyright

Mining Royalty

Patent Royalty

Royalty Agreement

A royalty agreement will normally contain clauses dealing with following:

- ❖ Minimum rent-guaranteed amount which the landlord, inventor or author is to receive whatever the output maybe.
- ❖ Royalty per unit per output.
- ❖ Right to recoup short-workings
- ❖ Right to subject part or whole of tenancy agreement.

Lessor and lessee

A lease is an agreement where a person acquires a right to use an asset for a certain period of time from another person or the owner of the asset in return for a payment. The owner is the lessor. The user is the lessee. The amount paid is royalty.



Minimum royalty and short workings

The payment of royalty is based on the unit of output produced. however, if the sum of royalty is less then minimum rent, then the payment will be based on the minimum rent.

(Minimum Royalty- Minimum Rent)

The difference between the royalty and the minimum rent is know as "short workings" normally, the tenant may obtain the right to recover the short workings.

Short workings= Minimum Rent-Actual Royalty(or)

Minimum Rent = Actual Royalty +Short workings

A blurred background image showing several people in business attire sitting around a table, reviewing documents. The image is overlaid with a dark blue horizontal band containing white text. The overall color scheme is light blue and white.

**WHAT IS MINIMUM RENT/
DEAD RENT IN ROYALTY ?**

Minimum Rent or Dead Rent

Minimum rent comes into picture only when the amount of actual royalty is calculated on the actual production or sale at the agreed rate is less than amount of minimum rent.

As stated earlier the shortfall of actual royalty as compared

with the minimum rent is called 'short workings,'.

Main purpose of Fixing a Minimum Rent;

1. The landlord could receive periodically at least a minimum rational amount.
2. The lessee is indirectly inspired for the sake of his own interest to reach a minimum level of performance.
3. In the absence of minimum rent, the lessee may acquire rights from different landlords to obviate competition and deliberately may underutilize such rights.

Recoupment of short working:-

It means the recovery of short working of the previous years out of surplus royalty of subsequent yearly.

- The following condition can be there for recoupment of short workings:
- Short working are recouped when there is surplus i.e., excess of royalty over minimum rent.
- Recoupment of short working is to be done within the agreed period as given in the agreement.
- If short working could not be recouped within the agreed period, it will be transferred to profit & loss account in the year in which the right of recoupment is lost.

➤ Fixed right to recoup the short workings:

When the lessee can recoup short workings within a certain period from the date of the lease, it is termed as fixed right. For example;

Short workings can be recouped within five years from the date of lease. The short workings of subsequent years cannot be recouped.

➤ Fluctuating right of recoup the short workings:

When the lessee can recoup short workings of any during the next following years, as per agreement, it is termed as fluctuating right.

For example,

short workings can be recouped in the next three years subsequent to the year of short workings.

(A) Case 1: When Royalty is Less than Minimum Rent

1. When royalty is payable:

Royalty A/C Dr.

S.W.A/C Dr.

To Landlord A/C

(Being royalty earned and short workings to be payable to the landlord)

2. When payment of royalty is made:

Landlord A/c Dr.

To Bank A/C

(Being amount paid to landlord)

3. For closing royalty account at the end of the year:

P&L A/C Dr.

To Royalty

(Being the amount of royalties transferred to P&L A/C)

(B) Case II: When Royalty is equal to minimum rent

1. When royalty is payable:

Royalty A/C Dr.

To Landlord A/C

(Being royalties earned and payable to landlord)

2. When amount of royalty is paid:

Landlord A/C Dr.

To Bank A/C

(Being payment made to landlord)

3. When royalty account is closed at the end of year:

P&LA/C Dr.

To Royalty A/C

(Being the transfer of royalties to P & L A/C)

C) Case III: When Royalty is More than Minimum Rent

1. When royalty is payable:

Royalty A/C Dr.

To Landlord A/C

(Being royalties earned and payable to landlord)

2. For writing off short working, if any

Landlord A/C Dr.

To Short workings A/C

(Being recoupment of S.W. of earlier year)

3. For payment of royalty is made:

Landlord A/C Dr.

To Bank A/c

(Being payment made to landlord) In place of above 2. and 3. entries following one entry may be passed; .

Landlord A/C Dr.

To Bank A/C

To Short workings A/C

(Being recoupment of S.W. to the extent of* ____ and balance paid to landlord)

4. For closing royalty account at the end of the year:

P&L A/c Dr.

To Royalty A/C

(Being amount of royalties transferred to P&L A/c)

Note: When royalty is payable monthly, quarterly or half-yearly, royalty will be transferred to profit & loss not when the royalty is paid but at the end of each year.

Journal Entries in the Books of Landlord

(A) Case I: When Royalty is Less than Minimum Rent

1. At the time when royalty is receivable:

Lessee A/C Dr.

To Royalty receivable A/c

To Royalty reserve A/C

(Being the amount of royalty receivable earned and diff. between minimum rent and royalty receivable transferred to royalty reserve A/c)

2. When above amount is received:

Bank A/c Dr.

To Lessee A/C

(Being the amount received from lessee)

3. For closing royalty receivable account:

Royalty receivable A/c Dr.

To P&L A/C

(Being amount of royalty receivable transferred to P&L)

B) Case II: When Royalty Receivable is Equal to Minimum Rent

1. At the time when royalty is receivable:

Lessee A/C Dr.

To Royalty receivable A/c

(Being the royalty receivable earned)

2. On receipt of the amount:

Bank A/C

To Lessee A/C

(Being the amount received from lessee)

3. For closing royalty receivable account:

Royalty receivable A/C Dr.

To P&L A/C

(Being transfer of royalty receivable A/c to P&L A/c)

(c) Case III: When Royalty is More than Minimum Rent:

1. At the time when royalty is receivable:

Lessee A/C

To Royalty receivable A/C

(Being the amount of royalty receivable earned)

2. For writing of royalty reserve A/c

Royalty reserve A/C Dr.

To Lessee A/C

(Being royalty reserve recouped)

3. On receipt of royalty amount:

Bank A/C Dr.

To Lessee A/C

(Being amount received from lessee)

Combined entry may be passed for 2. and 3. above. Bank A/C Dr.

Royalty reserve A/C Dr.

To Lessee A/C

(Being amount received and royalty reserve recouped)

4. For closing royalty receivable account:

Royalty receivable A/C

To P&L A/C

(Being transfer of royalty receivable A/c to P & L A/c)



Thank you