

ROYALTY ACCOUNTS

Royalty is the amount payable for utilizing the benefits of certain rights vested with some other person. Some people certain special rights over certain things. For example landlord possesses right over mine in his land. The author of book possesses right over his books.

The owner of these rights can use the rights themselves or lease it to others, upon such lease owner receives a consideration for the same which is called as Royalty.

Royalty

Royalty is a periodical sum based on output or sale payable by the lessee to the lessor for having utilized the rights of the lesser.

Types of Royalty

1. **Mining royalty:** The periodically payment or consideration made by the lessee of quarry on the basis of production to the land lord or property owner is called mining royalty.
2. **Brick-making Royalties:** The periodically payment or consideration, made by the lessee of quarry on the basis of production to the land lord or owner is called Brick-making Royalties.
3. **Oils-wells Royalties:** The periodically payment or consideration made by the lessee by the basis of output of oil to this lessor is called Oils-wells Royalties.
4. **Patent Royalty:** The periodical payment or consideration made by the patent right or lessee of a patent to the lesser or patentee on the basis of output.
5. **Copyright Royalty.** The periodically payment or consideration made by the lessee on the basis of sale of products to his lessor is called copyright royalty.

Lessee

The person who makes the payment to the owner of the asset is known as lessee.

Lessor

The owner of the asset to whom the payment is made known as lessor.

Minimum Rent/Dead Rent/ Fixed Rent

Royalty agreements are usually associated with a clause that the lessee must pay a minimum amount irrespective of the volume of output or sales are a particular period. Such minimum amount in called as minimum rent or dead rent or fixed rent.

Short Working

The excess of minimum rent over actual royalty is called short working. The excess is called is **short working** for the lessee and called **short working suspense** for the lessor.

Recoupment or Recovery of short working

It refers to recovering the short working of any year, from the surplus royalty of the succeeding years it is also called as **recoupment of short working**.

1. Fixed recoupment:

When recoupment is permitted only over a fixed period it is called fixed recoupment.

2. Floating recoupment:

When recoupment is permitted over a subsequent period following the year of short working it is called floating recoupment.

3. Recoupment within life of the lease:

When recoupment is permitted over the life time of the lease that is no restriction of the time for recoupment of short working.

If the short working cannot be recouped within the permitted period, they become irrecoverable and would be transfer to profit and loss A/c.

Table of Analysis

Year	Output	Minimum Rent	Royalty	Short Working	Surplus	Short Working Recovered	Short Working Irrecoverable	Amount Paid To Landlord
1	2	3	4	5	6	7	8	9

Royalty = Output * Royalty per unit

Short working = Royalty – Minimum Rent (If value is negative **Short working** and if it is positive **Surplus**)

ACCOUNTING TREATMENT

- I.** Accounting treatment in the books of lessee.
- II.** Accounting treatment in the books of lessor.

I. ACCOUNTING TREATMENT IN THE BOOKS OF LESSEE.

The accounting treatment in the books of lessee can be followed using any one of the methods.

- A. When minimum rent account is not required (I...e., without minimum rent account).
- B. When minimum rent account is required (I...e., with minimum rent account).

A. WHEN MINIMUM RENT ACCOUNT IS NOT REQUIRED (WITHOUT MINIMUM RENT ACCOUNT).

1. When royalties are less than the minimum rent.

a) *For Royalties payable.*

Royalties A/c	Dr.	XXX	-----	
Short workings A/c	Dr.	XXX	-----	
To Land Lord A/c		-----	XXX	

b) *For payment of Royalty*

Land Lord A/c	Dr.	XXX	-----	
To Bank A/c		-----	XXX	

c) *For transfer of royalties to profit and loss account*

Profit & Loss A/c	Dr.	XXX	-----	
To Royalties A/c		-----	XXX	

2. When actual royalties are more than the minimum rent and short workings are recovered.

a) *For royalties payable*

Royalties account	Dr.	XXX	-----	
To Short workings A/C		-----	XXX	
To Landlord A/C		-----	XXX	

b) *For Payment of Royalty*

Landlord Account	Dr.	XXX	-----	
To Bank A/C		-----	XXX	

c) *For transfer of royalties to profit and loss account*

Profit and loss A/c	Dr.	XXX	-----	
To Royalties A/c		-----	XXX	

d) *For transfer of irrecoverable short workings to profit and loss account*

Profit & Loss A/C	Dr.	XXX	-----	
To Short working Account		-----	XXX	

B. WHEN MINIMUM RENT ACCOUNT IS REQUIRED (WITH MINIMUM RENT ACCOUNT)

1. When actual royalties are less than the minimum rent.

a. *For minimum rent payable*

Minimum Rent A/c	Dr.	XXX	-----	
To Land lord A/c		-----	XXX	

b. *For royalties payable*

Royalties account	Dr.	XXX	-----	
Short workings A/C	Dr.	XXX	-----	
To Landlord Account		-----	XXX	

c. *For Payment of Royalty*

Landlord Account	Dr.	XXX	-----	
To Bank A/C		-----	XXX	

d. *For transfer of royalties to profit and loss account*

Profit and loss A/c	Dr.	XXX	-----	
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To Royalties A/c

2. When actual royalties are more than the minimum rent and short workings are recovered.

a. *For royalties payable*

Royalties account	Dr.	XXX	----	
To Short workings A/C		----	XXX	
To Landlord Account		----	XXX	

b. *For Payment of Royalty*

Landlord Account	Dr.	XXX	----	
To Bank A/C		-----	XXX	

c. *For transfer of royalties to profit and loss account*

Profit and loss A/c	Dr.	XXX	----	
To Royalties A/c		----	XXX	

d. *For transfer of irrecoverable short workings to profit and loss account*

Profit & Loss A/C	Dr.	XXX	----	
To Short working Account		----	XXX	

II. ACCOUNTING TREATMENT IN THE BOOKS OF LESSOR.

1. When actual royalties are less than the minimum rent.

a. *When royalty is due*

Lessee's account	Dr.	XXX	----	
To Short workings suspense A/C		----	XXX	
To Royalty Receivable Account		----	XXX	

b. *When Royalty is received*

Bank Account	Dr.	XXX	----	
To lessee's A/C		-----	XXX	

c. *When royalty is transferred*

Royalty Receivable A/c	Dr.	XXX	----	
To Profit and loss A/c		----	XXX	

2. When actual royalties are more than the minimum rent and short workings are recovered.

a. *When royalty is due*

Lessee's account	Dr.	XXX	----	
Short workings suspense A/C	Dr.	----	XXX	
To Royalty Receivable Account		----	XXX	

b. *When Royalty is received*

Bank Account	Dr.	XXX	----	
To lessee's A/C		-----	XXX	

c. *When royalty is transferred*

Royalty Receivable A/c	Dr.	XXX	----	
To Profit and loss A/c		----	XXX	

d. *When Short workings irrecovered is transferred*

Short working suspense A/c	Dr.	XXX	----	
To Profit and loss A/c		----	XXX	