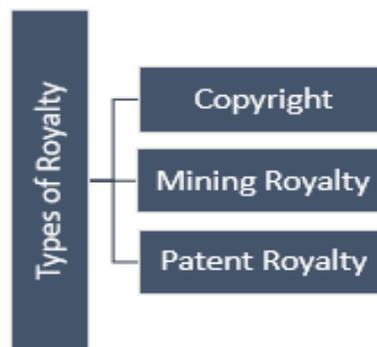


Short Notes on Royalty Accounts

(a) Royalty:

The term 'Royalty' is used to denote the periodic payment made by one person called lessee to another person called lessor for using the right by the lessee vested in the lessor. For example, if X is the owner of coal mine, and instead of extracting the coal himself, he concedes this right to Y in return for amount calculated on the basis of coal extracted from the mine, such a payment is called 'Royalty'.

Types of Royalties



There are following types of Royalties –

- Copyright – Copyright provides a legal right to the author (of his book/s), the 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.
- Mining Royalty – Lessee of a mine or quarry pays royalty to lessor of the mine or quarry, which is generally based on the output basis.
- Patent Royalty – Patent royalty is paid by the lessee to lessor on the basis of output or production of the respective goods.

Nature of Royalty Account:

Royalty Account is nominal in the nature. So it is debited in the books of party paying it and credited in the books of the party receiving it. As it is a nominal account, the amount is transferred either to P & L Account or Production Account, depending upon its treatment as direct or indirect expenses as the case may be.

(b) Minimum Rent or Dead Rent:

Minimum Rent is also called 'Dead Rent' or 'Rock Rent' or Fixed Rent. As the name suggests, this is the minimum 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. Thus, if in any year the actual royalty is less than the minimum rent, the landlord will claim the minimum

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rent. But in the years when actual royalty exceeds Minimum Rent, the landlord will claim the actual royalty. Moreover, Minimum Rent may be the same for each year or may vary for different years according to the terms of agreement. For example, if X has taken a lease of mine with minimum rent of Rs. 10,000 for a year and with a rate of royalty at Rs. 2 per ton of coal extracted. If coal extracted in the first year is 4000 tons then Royalty comes to Rs. 8000 i.e. 4000 tons x Rs. 2 per ton but (X) has to pay Rs. 10,000 as it is the minimum rent decided under the Royalty agreement. Thus, Minimum Rent will assure a guaranteed income per year to lessor.

(c) Short Working:

The excess of Minimum Rent over the Actual Royalty is known as short-working. Therefore short-working will only arise when the Actual royalty is less than the Minimum Rent. In the above example as given in Minimum Rent. Short-working for the year will be Rs. 2000 i.e. [M.R. (10,000) - Royalty (8,000)].

(d) Recoupment/Recovery of short Working:

When the Royalty agreement contains the clause that lessee can recover the short working of one year from the excess of Royalty as compared to Minimum Rent in the coming years, it is known as Recoupment of short working.

(e) Landlord/Lessor:

Landlords are the persons who have the legal rights on mine or quarry or patent right or copybook rights.

(f) Tenant/Lessee:

An Author or publisher; lessee or patentor who takes out rights (usually commercial or personal rights) from the owner on lease against the consideration is called lessee or tenant.

(g) Accounting Entries

When there is no royalty in the year	(a) Minimum Rent A/c - Dr To Landlord A/c (b) Short Working A/c - Dr To Minimum Rent A/c
Where Royalties are less than minimum rent and short workings are recoverable in next years.	(c) Minimum Rent A/c - Dr To Landlord A/c (d) Royalties A/c - Dr Short Working A/c - Dr To Minimum Rent A/c

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	(e) Landlord A/c - Dr To Bank A/c (f) Profit & Loss A/c - Dr To Royalty A/c
When Short workings are recouped	(g) Royalties A/c - Dr To Short Working A/c To Landlord A/c (h) Landlord A/c - Dr To Bank A/c
Transfer of irrecoverable Short workings	(i) Profit & Loss A/c - Dr To Short Working A/c
OR	

Books of Lessee or Tenants or Licence:

Entries:

(a) When Royalty is less than Minimum Rent		
(i) <i>When royalties is payable :</i>		
Royalty A/c	Dr.	} — Actual Royalty
Shortworking A/c	Dr.	
To Landlord A/c		} — Deficit, i.e., difference between actual royalty and Minimum Rent
<hr/>		
(ii) <i>For the payment to Landlord :</i>		
Landlord A/c	Dr.	} — Minimum Rent
To Bank A/c		
<hr/>		
(iii) <i>For transferring Royalty :</i>		
Trading/Profit & Loss /Manufacturing/ Production A/c	Dr.	} — Actual Royalty
To Royalty A/c		
<hr/>		
(b) When Royalty is equal to or More than Minimum Rent		
(i) <i>When royalties is payable :</i>		
Royalty A/c	Dr.	} — Actual Royalty
To Landlord A/c		
<hr/>		
(ii) <i>For the payment to Landlord :</i>		
Landlord A/c	Dr.	} — Actual Royalty
To Bank A/c		
<hr/>		
(iii) <i>For transferring Royalty :</i>		
Trading/Profit & Loss /Manufacturing/ Production A/c	Dr.*	} — Actual Royalty
To Royalty A/c		
<hr/>		
(c) When shortworking is recouped		
(i) Royalty A/c	Dr.	} — Actual Royalty
To Shortworking A/c		
" Landlord A/c		
<hr/>		
(d) For Irrecoupable/Irrecoverable shortworking i.e., which is lapsed		
(i) Profit and Loss A/c	Dr.	} — with the amount of irrecoupable short-working
To Shortworking A/c		

When Minimum Rent Account is opened:

Entries in the books of Lessee/Licence/Users:

(a) When Royalty is less than Minimum Rent

(i) Royalty A/c	Dr.	} — Actual Royalty
Shortworking A/c	Dr.	
To Minimum Rent A/c		
(ii) Minimum Rent A/c	Dr.	} — Deficit i.e., difference between / Royalty and Minimum Rent
To Landlord A/c		
(iii) Or, Direct Entry :		} — Minimum Rent
Royalty A/c	Dr.	
Shortworking A/c	Dr.	
To Landlord A/c		} — Actual Royalty
(iv) When the payment is made		
Landlord A/c	Dr.	} — Deficit
To Bank A/c		
(v) For transferring Royalty		} — Minimum Rent
Trading/Profit and Loss/Manufacturing/ Production A/c	Dr.	
To Royalty A/c		

(b) When Royalty is equal to or more than Minimum Rent

(i) Royalty A/c	Dr.	} — Actual Royalty
To Minimum Rent A/c		
(ii) Minimum Rent A/c	Dr.	} — Do
To Landlord A/c		
(iii) or, Direct Entry :		} — Do
Royalty A/c	Dr.	
To Landlord A/c		

(iv) When the payment is made		} — Actual payment
Landlord A/c	Dr.	
To Bank A/c		
(v) For transferring Royalty		} — Actual Royalty
Trading/Profit and Loss/Manufacturing/ Production A/c	Dr.	
To Royalty A/c		

**(c) When Royalty is More than Minimum Rent
(In case of Recoupment of shortworking)**

(i) Royalty A/c	Dr.	} — Actual Royalty
To Landlord A/c		
(ii) Landlord A/c	Dr.	} — Actual Recoupment
To Shortworking A/c		
(iii) or, Direct Entry :		} — Actual Royalty
Royalty A/c	Dr.	
To Shortworking A/c		
" Land lord A/c		} — Recoupment
(iv) When the payment is made		
Landlord A/c	Dr.	} — Actual Amount
To Bank A/c		
(v) For transferring Royalty		} — Payment to landlord
Trading/Profit and Loss/Manufacturing/ Production A/c	Dr.	
To Royalty A/c		