

TREATMENT OF WORKMEN COMPENSATION RESERVE IN CASE OF RECONSTITUTION OF PARTNERSHIP

❖ MEANING :-

IT IS A RESERVE CREATED OUT PFT TO PROVIDE FOR ANY COMPENSATION PAYABLE TO WORKERS IN CASE OF ANY MIS HAPPENING.

❖ WHENEVER IT IS CREATED THE FOLLOWING JOURNAL ENTRY IS PREPARED:-

Date	Particulars	L.F	Dr amt	Cr amt
	Profit and loss appropriation a/c dr To Workmen compensation reserve a/c (being workmen Compensation Reserve created)		10,000	10,000

- ❖ THE RESERVE APPEARS ON LIABILITY SIDE OF THE BALANCE SHEET
- ❖ AT TIME OF ADMISSION / RETIREMENT WE MAY BE GIVEN ADDITIONAL INFORMATION AS TO ITS CLAIM

WHAT IS CLAIM? ANY AMT WHICH THE BUSINESS HAS ADMITTED (accepted) THAT IT NEEDS TO PAY TO ITS WORKERS

- ❖ IN THIS WE CAN HAVE MANY SITUATIONS:-

CASE 1:- NO CLAIM

- ❖ IF THERE IS NO CLAIM ON WORKMEN COMPENSATION RESERVE THEN IT IS DISTRIBUTED AMONG OLD PARTNERS IN THE OLS PROFIT SHARING RATIO AS IT IS A FREE RESERVE (pure accumulated profit)

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
WORKMEN COMPENSATION RESERVE	10,000		

NO ADDITIONAL INFORMATION

SINCE NO CLAIM THEREFORE ALL THE WORKMEN COMPENSATION RESERVE IS CREDITED TO PARTNERS CAPITAL ACCOUNT IN OLD PROFIT SHARING RATIO (which is equal as the question is silent)

Journal of A and B

Date	Particulars	L.F	Dr amt	Cr amt
	Workmen compensation reserve A/C Dr. To A capital a/c To B capital a/c (being workmen compensation reserve distributed)		10,000	5000 5000

❖ In new b/s no workmen compensation reserve will appear as it is all distributed.

CASE 2:- CLAIM LESS THAN WCR

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
WORKMEN COMPENSATION RESERVE	10,000		

additional information :- There is a claim on workmen compensation reserve of Rs. 6,000

- ❖ This means out of 10,000 we have to keep 6,000 in workmen compensation reserve a/c as there is a claim . Infact this 6,000 goes to claim on workmen compensation reserve a/c . that is now it becomes an external liability . Earlier it was appearing like a reserve only .
- ❖ Balance 4,000 (10,000-6000) is free reserve that is; there is no claim on it so it goes to old partners capital a/c in old profit sharing ratio

Journal of A and B

Date	Particulars	L.F	Dr amt	Cr amt
	Workmen compensation reserve A/C Dr. To A capital a/c To B capital a/c To claim on workmen compensation reserve a/c (being workmen compensation reserve distributed)		10,000	2,000 2,000 6,000

Now in new Balance Sheet

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
CLAIM on WORKMEN COMPENSATION RESERVE	6,000		

Case 3:- when claim is equal to Workmen Compensation Reserve

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
WORKMEN COMPENSATION RESERVE	10,000		

additional information :- There is a claim on workmen compensation reserve of Rs. 10,000

- ❖ This means entire reserve will get converted to claim and nothing is left to be distributed to old partners cap a/c

Journal of A and B

Date	Particulars	L.F	Dr amt	Cr amt
	Workmen compensation reserve A/C Dr. To claim on workmen compensation reserve a/c (being workmen compensation reserve transferred to claim on workmen compensation reserve)		10,000	10,000

And the new balance sheet will appear like this

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
CLAIM ON WORKMEN COMPENSATION RESERVE	10,000		

CASE 4:- WHEN CLAIM IS MORE THAN WORKMEN COMPENSATION RESERVE

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
WORKMEN COMPENSATION RESERVE	10,000		

additional information :- There is a claim on workmen compensation reserve of Rs. 15,000

- ❖ Now , claim > WORKMEN COMPENSATION RESERVE .

Thus we have a shortage of Rs. 5,000(15,000-10,000)

This amount will be debited to **REVALUATION A/C**

Journal of A and B

Date	Particulars	L.F	Dr amt	Cr amt
	Workmen compensation reserve A/C Dr. Revaluation A/c		10,000 5,000	

	To claim on workmen compensation reserve a/c (being workmen compensation reserve transferred to claim on workmen compensation reserve)			15,000
--	--	--	--	---------------

- ❖ Nothing will go to partner capital a/c , as no amt of free reserve is left in the workmen compensation reserve a/c

In the revaluation a/c , it will appear like this

Revaluation a/c

Particulars	Amt	Particulars	Amt
To claim on workmen compensation reserve a/c	5,000		

New balance sheet will appear like this

Extract of Balance Sheet of A and B

LIABILITIES	AMT	ASSETS	AMT
CLAIM ON WORKMEN COMPENSATION RESERVE	15,000		

Case 5: - when there is claim but no workmen compensation reserve appears in the balance sheet

Lets take a case where in the old balance sheet there is no workmen compensation reserve But additional information says ; claim to be paid to workers as compensation / compensation payable to workers is Rs.7,000

- ❖ This is a liability increasing as thus revaluation a/c will be debited .

Journal of A and B

Date	Particulars	L.F	Dr amt	Cr amt
	Revaluation A/c Dr. To claim on workmen compensation reserve a/c (being workmen compensation reserve transferred to claim on workmen compensation reserve)		7,000	7,000

Revaluation a/c

Part	Amt	Part	Amt
To claim payable to workers a/c	7,000		

The New Balance sheet will appear like this

Extract of Balance Sheet of A and B

LIABILTIES	AMT	ASSETS	AMT
CLAIM ON WORKMEN COMPENSATION RESERVE	7,000		