Indian School, Nizwa

Accountancy Worksheet:2

Chapter 2– Change in Profit- sharing ratio among existing partners: Treatment of Workmen Compensation Reserve

DATE: _____ NAME: _____ CLASS: XII

A reserve created out of firm's profit to meet likely liability for payment of compensation to employees in case of accidents is known as workmen compensation reserve. At the time of change in profit sharing ratio /admission/retirement or death of a partner, its accounting treatment is as follows:

1. **When no claim against WCR exists:**

Workmen Compensation Reserve A/c Dr
To Partners' Capital/Current A/c s
(Being amount of WCR credited to Partners in their old profit sharing ratio)

2. **When Claim against WCR exists:**

a) When claim is lower than the amount of WCR

Workmen Compensation Reserve A/c Dr
To Provision for workmen compensation reserve
To Partners' Capital or current A/c s
(Being amount of claim adjusted against WCR and balance of WCR transferred to partners in their old profit sharing ratio)

b) When Claim is equivalent to WCR

Workmen Compensation Reserve A/c Dr
To Provision for workmen compensation claim A/c
(Being provision for WC Claim made)

c) If claim is higher than the amount of WCR

(1) Workmen Compensation Reserve A/c Dr
Revaluation A/c Dr
To Provision for Workmen Compensation Claim
(Being the amount of claim adjusted against WCR and revaluation A/c)

(2) Partners Capital/Current A/c s Dr
To Revaluation A/c
(Being revaluation loss debited to Partners' capital or current accounts)

Qn.1 Ramesh,suresh and Dinesh are partners sharing profits and losses in the ratio 4;3;2 decided to share future profits and losses in the ratio 2;3;4 with effect from 1st April 2017.An extract of their Balance Sheet as at 31st March 2017 is

Liabilities	₹	Assets	₹
Workmen compensation reserve	1,80,000		

Case (1)if there is no other information

Case(2)if a claim of 90,000 is there

Case (3)if claim is 1,98,000 is there