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Consolidated workpaper (downstream sales, intercompany receivable/payable)

Pal Corporation acquired a 90 percent interest in Sor Corporation on January 1, 2011, for $540,000, at which time Sor's capital stock and retained earnings were $300,000 and $180,000, respectively. The fair value/book value differential is goodwill. Financial statements for Pal and Sor for 2012 are as follows (in thousands):

	Pal	Sor
Combined Income and Retained Earnings Statement for the Year Ended December 31, 2012		
Sales	$ 900	$380
Income from Sor	80	—
Gain on land	10	—
Cost of sales	(400)	(200)
Operating expenses	(226)	(80)
Net income	364	100
Add: Retained earnings January 1	404	240
Less: Dividends	(300)	(40)
Retained earnings, December 31	$ 468	$300
Balance Sheet at December 31, 2012		
Cash	$ 266	$ 28
Accounts receivable	360	200
Dividends receivable	36	—
Inventories	120	72
Land	200	60
Buildings—net	560	160
Machinery—net	660	280
Investment in Sor	606	—
	$2,808	$800
Accounts payable	$ 400	$100
Dividends payable	60	40
Other liabilities	280	60
Capital stock	1,600	300
Retained earnings	468	300
	$2,808	$800

ADDITIONAL INFORMATION

1. Pal sold inventory items to Sor for $120,000 during 2011 and $144,000 during 2012. Sor's inventories at December 31, 2011 and 2012, included unrealized profits of $20,000 and $24,000, respectively.
2. On July 1, 2011, Pal sold machinery with a book value of $56,000 to Sor for $70,000. The machinery had a useful life of 3.5 years at the time of sale, and straight-line depreciation is used.
3. During 2012, Pal sold land with a book value of $30,000 to Sor for $40,000.
4. Pal's accounts receivable on December 31, 2012, includes $20,000 due from Sor.
5. Pal uses the equity method for its 90 percent interest in Sor.

REQUIRED: Prepare a consolidation workpaper for Pal Corporation and Subsidiary for the year ended December 31, 2012.

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Workpaper in year of