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P 6-2**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	<u>\$ 468</u>	<u>\$300</u>
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	—
	<u>\$2,808</u>	<u>\$800</u>
Accounts payable	\$ 400	\$100
Dividends payable	60	40
Other liabilities	280	60
Capital stock	1,600	300
Retained earnings	468	300
	<u>\$2,808</u>	<u>\$800</u>

ADDITIONAL INFORMATION

- 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.
- 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.
- During 2012, Pal sold land with a book value of \$30,000 to Sor for \$40,000.
- Pal's accounts receivable on December 31, 2012, includes \$20,000 due from Sor.
- 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.

P 6-3**Workpaper in year**

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P 6-4
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