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**INTERNATIONAL TRANSFER PRICING**

Transfer pricing is the uncovering of the price at which transactions among related parties will be obtainable. Transfers can include a parent to a subsidiary, a subsidiary to a parent or a subsidiary to another subsidiary with the same parent. Another name for transfer between related parties is called intercompany transactions. Intercompany transactions carry a significant portion of international trade, hence, the need to determine transfer price.

There are two factors that determine the method which international transfer price are determined. The first factor is minimization of one or more types or costs and the objective that the top management wishes to achieve through its transfer pricing practices. The second is the law affecting countries governing in the way intercompany transactions crossing their borders may be priced. They were established to prevent multinational corporations from not paying a portion of taxes and import duties.

Decentralization is the delegation of authority by top managers to division or operational managers in an organisation that is structured in divisions. A division may be a profit or an investment centre. It can help local managers to respond rapidly to a changing environment and also divide large and complex problems into manageable pieces. The greatest treat to decentralization will be the self-interest of the local managers that might be put before the objectives of the organisation. This is why goal congruence is necessary. It allows for the corporate and control systems to be designed in such a way that it provides incentives for local managers that align with the organisation’s goals.

An intercompany transfer can be set and used as an incentive for local managers. It can ensure that each division’s profit accurately reflects its contribution to company profits, which provides a basis for efficient allocation of resources. While ensuring corporate performance, it provides a basis for rewarding managers which is seen as a solution where everyone benefits.

There are three methods used in setting transfer prices. They are cost-based transfer price, market-based transfer price and negotiated price. The cost-based transfer price is built on the product or service cost. Cost can be set as either variable production cost, full cost, or variable plus fixed production cost. This can be based on actual or budgeted amounts. The transfer price will often include a profit margin for the seller.

The market-based transfer price is based on the price that would be charged to an unrelated customer, determined by reference to sales of similar products by other companies to unrelated parties or the price which is sold in the market as the name implies. It avoids transferring the inefficiencies of one division to another. The negotiated price arises because of a negation between the buyer and the seller. The price might be unrelated ti the cost or market value.

The major objectives of international transfer pricing are cost minimisation and performance evaluation. Other objectives might include avoidance of withholding taxes, minimisation of import duties, protecting cashflows from currency devaluation and circumvent Profit Repatriation Restrictions.