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Rapid advances in technology, transportation and communication have given rise to a large number of multinational corporations (MNCs) which have the flexibility to place their enterprises and activities anywhere in the world. A significant volume of global trade consists of international transfers of goods and services, capital and intangibles within an MNC group; such transfers are called “intra-group transactions/inter-company transactions”. It then becomes important to establish the appropriate price, called the “transfer price”, for intra-group, cross-border transfers of goods, intangibles and services. The act of setting prices for transactions between enterprises within the same company involving the transfer of property and services is termed **transfer pricing**.

Decentralisation is the delegation of authority and responsibility to division /local managers. This is usually done to divide large and complex problems into smaller ones, to allow managers respond quickly to a changing environment and to motivate local managers in performing their duties. However, decentralization has its own pitfall. Because local managers share a degree of authority with top managers, they may make decisions that they deem fit but actually to the disadvantage of the company as a whole. This is why the design of an accounting system in an organization should encourage consistency and the smooth work according to the company’s corporate goals. This is called **Goal congruency**. To achieve the efficient allocation of resources, local managers should make decisions that enhance the corporate performance while top managers should provide a basis for measuring, evaluating and rewarding local managers performance in fairness. If goal congruence is not achieved, potential benefits of decentralization can be lost.

There are three common methods used in internatonal transfer pricing :

**Cost-based transfer price** is the transfer price is based on the cost to produce a good or service. Cost can be determined as variable production cost, variable plus fixed production cost, or full cost, based on either actual or budgeted amounts (standard costs). The problems associated with this method are the issue of which measure to use and transfer of inefficiency from one unit to others. The use of standard, rather than actual, costs alleviates this problem.

**Market-based transfer price** is the transfer price charged a related party is either based on the price that would be charged to an unrelated customer or determined by reference to sales of similar products or services by other companies to unrelated parties.

**Negotiated price** is the transfer price is the result of negotiation between buyer and seller and may be unrelated to either cost or market value. A negotiated pricing system can be useful, as it allows subsidiary managers the freedom to bargain with one another, thereby preserving the autonomy of subsidiary managers.

There are two possible objectives to consider in determining the appropriate price at which an inter-company transfer that crosses national borders should be made; Performance evaluation and Cost minimization.

There is an inherent conflict between the performance evaluation and cost- minimization objectives of transfer pricing. To minimize costs, top managers must dictate a discretionary transfer price. One way that companies deal with this conflict is through dual pricing.

Other Cost-Minimization Objectives include; Avoidance of Withholding Taxes, Minimization of Import Duties, Improve Competitive Position of Foreign Operation, Protect Cash Flows from Currency Devaluation and others.