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**SUMMARY ON THE TOPIC INTERNATIONAL TRANSFER PRICING**

Transfer pricingmeans the determination of a price at which transactions between related parties will be carried out. Transfers can be in a of, from a subsidiary to its parent which can be known as upstream and also, from the parent to a subsidiary which can be known as downstream, or from one subsidiary to another of the same parent.

**DECENTRALIZATION AND GOAL CONGRUENCE**

A division may be a profit centre, responsible for revenues and operating expenses, or an investment centre, responsible also for assets. Business enterprises often are organized by division. Decentralizationhas many advantages, some of them are:

i. Allowing local managers to respond quickly to a changing environment.

ii. Dividing large and complex problems into manageable pieces.

iii. Encouraging local managers.

Decentralization also have disadvantages, one of its major disadvantage is; local managers who have been granted decision-making authority may make decisions that are in their self-interest but detrimental to the company as a whole.

 The corporate accounting and control system should be designed in such a way that it provides incentives for local managers to make decisions that are consistent with corporate goals which is known as **goal congruence**. The system to be used for evaluating the performance of decentralized managers is an important component in achieving goal congruence.

Appropriate transfer prices can ensure that each divisions or subsidiary’s profit accurately reflects its contribution to overall company profits, therefore providing a basis for efficient allocation of resources. To achieve this objective, transfer prices should encourage local managers to make a decision that improves corporate performance, while at the same time providing a means for measuring, evaluating, and rewarding local manager performance in a way that managers perceive as fair. If goal congruence is not achieved, then the potential benefits of decentralization can be lost.

**TRANSFER PRICING METHODS**

There are three types of transfer pricing which are:

1. **Cost-based transfer price:** The transfer price is based on the cost to produce a good or service.
2. **Market-based transfer price:** 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.
3. **Negotiated price:** The transfer price is the result of negotiation between buyer and seller and may be unrelated to either cost or market value.

**OBJECTIVES OF INTERNATIONAL TRANSFER PRICING**

There are two objectives of International Transfer Pricing which are:

**Performance Evaluation:** To fairly evaluate the performance of both parties to an intercompany transaction, the transfer should be made at a price acceptable to both parties

**Cost Minimization:** When intercompany transactions cross national borders, differences between countries might lead anMNC to attempt to achieve certain cost-minimization objectives through the use of discretionarytransfer prices mandated by headquarters.

**Conflicting Objectives:**There is an inherent conflict between the performance evaluation and cost- minimization objectives of transfer pricing. One way that companies deal with this conflict is through dual pricing.

**Other Cost-Minimization Objectives:** some of these include; avoidance of withholding taxes, minimization of import duties, circumvents profit repatriation restrictions; protect cash flows from currency devaluation e.t.c.