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INTERNATIONAL ACCOUNTING

**INTERNATIONAL TRANSFER PRICING**

There are a large number of multinational corporations (MNCs) which is a result of the rapid advances in technology, transportation and communication, this has led to flexibility of business activities globally. Within a multi national company group, there is a great amount of international transfers of good & services and capitals & intangibles with are known as **“intra-group transaction/inter-group transactions”**. Transfer pricing is the setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise. It is important to establish to set the appropriate price which is called the ‘transfer price”.

Decentralisation is the process by which the activities of an organisation, particularly those regarding planning and decision making, are distributed or delegated away from a central, authoritative location or group. It is usually done to breakdown complex and large problems to allow managers adapt to a changing environment and to boost the morale of the local managers. Decentralisation has it’s short comings, these can occur when local managers make decisions that do not benefit the company as a whole. This has brought the need for **Goal congruency** which is defined as consistency or agreement of individual goals with company goals. If goal congruency is not achieved then the possibility of decentralisation is not achievable.

There are there main methods of transfer pricing which are:

Cost-based transfer price which is based on the cost of production of the goods or service. The 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). A shortcoming of this method is the inefficiency of transfer from one unit to the others and the means of measurement.

Market-based transfer price is sometimes known as customer-oriented pricing as the key determinant of price is what customers are willing to pay.

Negotiated price arises when there is no discernible market price because the market is very small or the goods are highly customised. This results in prices that are based on the relative negotiating skills of the parties.

There is a dispute between performance evaluation and cost minimisation objectives of transfer pricing. decision makers often dictate transfer prices based on tact in order to minimise cost which lead to conflict. This is avoidable but adopting Dual pricing.

Other cost-minimising objectives include, Avoidance of with holding taxes, minimisation of import duties, protection of cash flows from currency devaluation, etc.