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**Question**  
Summarise, in not more than 2 pages, the note on International Transfer Pricing.

SUMMARY

Transfer pricing is the determination of price at which business transaction will be carried out either between subsidiary and subsidiary or parent and subsidiary and intercompany transaction. Intercompany transactions are transfer that occurs between related parties.

There are two factors that influences the manner at which international prices are determined, they include:

1. The objective that headquarters management wishes to achieve through its transfer pricing practices
2. The law that exists in most countries governing the manner in which intercompany transactions crossing their border may be priced.

Business enterprises are organized by divisions. These divisions include the profit Centre, investment center and the cost center. Businesses organized by divisions do delegate or decentralize authority and responsibilities to division managers. Goal congruence requires that each division or departmental goal should be inclined in the overall objective of the business. 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. The system used for evaluating the performance of decentralized managers is an important component in achieving goal congruence.

The price at which an intercompany transfer is made determines the level of revenue generated by the seller, becomes a cost for the buyer, and therefore affects the operating profit and performance measurement of both related parties. Appropriate transfer prices can ensure that each division or subsidiary’s profit accurately reflects its contribution to overall company profits, thus providing a basis for efficient allocation of resources.

There are different transfer pricing method, they include:

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

There are two possible objectives to consider in determining the appropriate price at which an intercompany transfer that crosses national borders should be made, they include; Performance evaluation and cost minimization. Other cost minimization objective include; Minimization of Import Duties, Avoidance of Withholding Taxes, Protect Cash Flows from Currency Devaluation etc.