**NAME: AGGREY USHANG O.**

**MATRIC NO: 16/sms02/006**

**DEPARTMENT: ACCOUNTING**

**LEVEL: 400**

**COURSE CODE: ACC406**

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

Transfer pricingrefers to the determination of the price at which transactions between related parties will be carried out. Transfers can be from a subsidiary to its parent (upstream), from the parent to a subsidiary (downstream), or from one subsidiary to another of the same parent. Transfers between related parties are also known as intercompany transactions.Intercompany transactions represent a significant portion of international trade.

Two factors heavily influence the manner in which international transfer prices are determined. The first factor is the objective that headquarters management wishes to achieve through its transfer pricing practices. One possible objective relates to management control and performance evaluation. Another objective relates to the minimization of one or more types of costs. These two types of objectives often conflict.

The second factor affecting international transfer pricing is the law that exists in most countries governing the manner in which intercompany transactions crossing their borders may be priced. These laws were established to make sure that multinational corporations (MNCs) are not able to avoid paying their fair share of taxes, import duties, and so on by virtue of the fact that they operate in multiple jurisdictions. In establishing international transfer prices, MNCs often must walk a fine line between achieving corporate objectives and complying with applicable rules and regulations.

**DECENTRALIZATION AND GOAL CONGRUENCE**

Business enterprises often are organized by division. A division may be a profit center, responsible for revenues and operating expenses, or an investment center, responsible also for assets. In a company organized by division, top managers delegate or decentralize authority and responsibility to division managers. Decentralizationhas many advantages, including the following:

* Allowing local managers to respond quickly to a changing environment.
* Dividing large, complex problems into manageable pieces.
* Motivating local managers who otherwise will be frustrated if asked only to implement the decisions of others.

**TRANSFER PRICING METHODS**

* **Cost-based transfer price**: 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 transfer price often includes a profit margin for the seller (a “cost-plus” price).
* **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. Market-based systems avoid the problem associated with cost-based systems of transferring the inefficiencies of one division or subsidiary to others.
* **Negotiated price**: 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. However, for this system to work efficiently, it is important that there are external markets for the items being transferred so that the negotiating parties can have objective information as the basis for negotiation.

**OBJECTIVES**

**Performance Evaluation**

**Cost Minimization**