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**INTERNATIONAL TRANSFER PRICING**

Transfer pricing refers 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 transaction. Intercompany transactions represent a significant portion of international trade.

# **DECENTRALIZATION AND GOAL CONGRUENCE**

Business enterprises often are organized by a division. A division may be a profit centre, responsible for revenues and operating expenses, or an investment centre, responsible also for assets. as many advantages, including the following:

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

**TRANSFER PRICING METHODS**

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**

# **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.

1. **Cost Minimization**

# When intercompany transactions cross national borders, differences between countries might lead an MNC to attempt to achieve certain cost-minimization objectives through the use of discretionary transfer prices mandated by headquarters.