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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.

**DECENTRALIZATION AND GOAL CONGRUENCE**

Decentralization has many advantages, including the following:

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

ii. Dividing large, complex problems into manageable pieces.

iii. 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 cost to produce goods and services is based on the transfer price ,the transfer price often includes a profit margin for the seller (a “cost-plus” price). Cost-based systems are simple to use, but there are at least two problems associated with them.

2. **Market based transfer price:** he 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 :** 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.

**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. For example, forcing the manager of one operating unit to purchase parts from a related operating unit at a price that exceeds the external market price will probably result in an unhappy manager.

**Cost Minimization**

 The most well-known use of discretionary transfer pricing is to minimize worldwide income taxes by recording profits in lower-tax countries .