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 **SUMMARY ON 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 transactions. Intercompany transactions represent a significant portion of international trade.

There are two factors heavily influencing 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. 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.

**DECENTRALIZATION AND GOAL CONGRUENCE**

Business enterprises often are organized by division. In a company organized by division, top managers delegate or decentralize authority and responsibility to division managers. Decentralization has many advantages, including the following:

1. Allowing local managers to respond quickly to a changing environment.
2. Dividing large, complex problems into manageable pieces.

The most important pitfall or disadvantage is that local managers who have been granted decision-making authority may make decisions that are in their self-interest but detrimental to the company as a whole.

**TRANSFER PRICING METHODS**

The following three methods are commonly used in setting transfer prices in an international context and are also used in domestic context.

1. **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)

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**: This 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**

1. Performance Evaluation
2. Minimization of cost. Objectives of cost minimization includes; Avoidance of

withholding taxes, avoidance of withholding taxes, minimization of import duties (tariffs) e.t.c.