

# Free transfer pricing essay example

[Business](#), [Company](#)



**Answer)**

The calculations in excel sheet have been performed to estimate the profitability that will occur for the company, highlight that with the moving of Division A and Division B towards the market and not purchasing the parts from Division C would reduce the overall profitability of the company. The profit of Division A and B would increase but that of Division C would reduce. Thus if the Division A and B are able to recover the cost associated with their products the transfer pricing being employed currently should be used.

**•Evaluate and discuss the implications of the following transfer pricing policies:**

Transfer price = cost plus a mark-up for the selling division

Transfer price = fair market value

Transfer price = price negotiated by the managers

The calculations have been performed for each of the cases mentioned above. It has been viewed that if the company employs the strategy of mark-up and ascertaining that the price would be less than that of market the profit will be maximum of the three cases. Whereas the negotiated price will have the least profit for the company as the benefit for Division A and B would reduce. All the three cases have been evaluated based on the current strategy of the company wherein 3000 units are purchased from Division C and 1000 units from the market for Division A and in case of Division B 1000 units from Division C and Market.

## **Suggestion: The company should employ the policy of mark-up**

Answer 2)

Transfer Pricing refers to valuation of products and services within the firm or in other words price at which different departments of the organization transact goods or services with each other.

Since the process of transfer pricing facilitates coordination of managerial decisions in decentralized firms, they are of immense importance from the perspective of management. Similarly, transfer pricing also helps in allocation of group's profit to the subsidiaries, it also helps in financial purpose of the company which not only includes profit distribution but also take care of taxation concerns. Thus, since transfer pricing serves both management and financial it has relevant importance from both of the perspectives of the company.

### **Management Perspective:**

Finance Perspective:

With profit allocation, transfer pricing also has significant importance from financial perspective. With profit allocation, organization is able to quantify a sub-unit's contribution to firm wide profit. This process is important for all the stakeholders to take interest in the profit allocation of the firm.

### **Works Cited**

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