

TRANSFER PRICING

TP(1)

- price at which one division of the organisation supplies goods or services to another division of the same organisation
- TP is revenue (transferor) (seller div) T.P doesn't impact overall profit of co
cost (transferee) (buyer div) it remains same.

Methods of determining TP.

COST

COST + mark up

market price

Negotiable/Bargained Price.

- (a) Total cost
- (b) Variable cost
- (c) Actual cost
- (d) Standard cost

cost + % of mark up
mark up = % of cost / investment

at m.p
(product is available in mkt)
every div is a profit center.

- most appropriate
- between minimum & maximum PRICE

Total cost = VC + absorbed FC

$$\frac{AFC}{\text{normal units}} = \frac{TFC}{\text{normal units}}$$

Actual cost = VC + actual FC

$$\frac{ACFC}{\text{actual units}} = \frac{TFC}{\text{actual units}}$$

Negotiable/Bargained T.P (appropriate T.P)

- best method.

T.P between (when range is asked - max & min)

MAXIMUM Price
(Buyer) to pay

MINIMUM Price
(Seller) to receive.

- (a) Market price
- (b) Acquisition cost
= mp + cost of buying.
- (c) Ability of buyer to pay (so that plc is NIL)
max TP = least of abc

= variable cost
(+) specific FC] incremental cost up to pt of transfer
(+) opportunity cost
↓
(loss of profit or contribution)

- * opportunity cost only when
- seller operates at full capacity
- product is marketable.

ability to pay = ?

SP	a
(-) own VC	b
(-) transfer cost	x
PL	0

all known find x.

Part	Div A (cent)	Div B (internal)	entire
Units	XX	XX	XX
Sales	XX	XX	XX
(-) V.C	XX	XX	XX
Own V.C	XX	XX	XX
Transfer V.C	XX	-	XX
Cont p.V	XX	XX	XX
X units	XX	XX	XX
Total profit	XX	XX	XX
(-) F.C	XX	XX	XX
Net profit	XX	XX	XX

÷ investment (FA + CA + debt)

return on Invest.

cont shared in ratio of VC (when cont is known)

Part	A	B	C
SP	100	100	100
(-) own VC	90	90	90
(-) TVC	90	90	90
cont	given	given	given

For seller div: X V.C of transfer.

Units A: FCA Investments A

while comparing: always find existing scenario also.

correct TP: must lie between min & max.

diff units: dept A = 10000 dept B = 10000 (1d = 100d)
be careful

foreign/currency diff: convert all in one common currency.

S & D cost: X incurred on transfer unit.

FC: common can be ignored.