Contribution ke basis pe majority answer solve hote hain

10000 (produced)

- 95000 → market demand
- 5000 → Idle → Here market ko 100 pe dedenge, aur bacha hua 5000 if department x ko chahiye hoga toh kamse kam 80 pe denge (as 80 is my VC) utna tak sell karenge bhale profit "0" dekin loss nahin ho.

Chapter 7.

Variable selling cost is for advertisement, toh jab internal transfer ka uske liye toh usko consider

Transfer pricing.

for minimum TP = Think from transferor
" maximum " = " " transferee (as transferee MP se zyaada nahi lega nahin)

nahin karna hain.

Pricing.
- Transfer pricing → Internal sale → Transfer Price
- External pricing → External sale → Selling Price

Imp terms from IT perspective
1. Comparable Uncontrolled price. – not in control of govt
2. Resale price – SP – G.P margin – other costs of transferee
3. Transactional net margin method. – Cost + NP of transaction.
4. Profit split – Cost + share of group profit.
5. Cost Plus Method – Cost of transferor + standard margin.

Centralised system :- (Transfer Price = cost price)
- Divisions are cost centres.
- Divisions are dependent on one another.
- Divisions are at cost transaction; no profit

[Division cost pe bechta hain, aur uske karan relative as compared to Decentralised system, individual Division ka cost kam hota hain as no profit element, ∴ overall group ka profit ↓ on sale of product by last division]

Decentralised system. (Transfer price = cost plus price ; max = MP)
- Divisions are profit centres. (with individual cost centres and revenue centres)
- Independent
- Cost plus price (maximum = MP) (Transfer @ cost + % of profit).

Conflicts between them is resolved by principle of "goal congruency" i.e we take care of overall profit maximisation of the group and not just individual profit maximization.

[Each division jab profit pe bechta hain, toh non decisive ke cost me add hojata hain subsequently on sale to market by last division.]

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variable selling cost — for internal transfer, should be ignored fully
(VSC) ↓
even when calculating max.

I computation of Transfer price.

TP. or MP − VSC
max TP = VC + Con ↑
min TP = VC.
→ or substitute value (−) diff cost.

(a) Transfer price can be.

minimum or Floor price	maximum or ceiling price.	negotiated or Bargained price.
↓	↓	↓
variable cost	market price.	cost plus price.

(b) Transfer price. = cost + profit.

→ cost • In Absence = variable cost + fixed cost
• If marginal costing = variable cost → TP = VC + contribution.

→ Profit • profit % on cost = markup
• " on TP
• " " capital Employed. (called return on capital employed pricing)
• FA + WC ; or.
• EC + PC + R − PE.

TC + profit (as a % of CE) = Price
VC + contrib^n (as a % of CE) = Price.

when you sacrifice your o/s sales for internal, then you will charge MP per unit. → VSC. this will be your min TP. max TP will be same as you are doing a sacrifice.

Transferor's view : Min TP = (cost to be incurred + Benefits lost)
Max TP = MP

Transferee's view : max TP = (Savings in Purchase cost − Any Alteration cost)
min TP = Variable cost of transferor.

Transfer price with goal congruency concept.

Two fold objectives.

- Evaluation of transfer from company's POV – Goal congruency viewpoint
- computation of minimum & maximum transfer price.

(i) Evaluation of transfer from company's POV.

Incremental Approach

Particulars. Amount (in ₹)

a) Transferor division.
→ cost to be incurred for transfer
(a) VC ✓
(b) Avoidable FC. ✓ ✓

+ Benefits lost due to transfer
(−) contribution lost or OC ✓

Incremental cost of transfer (A) ✓ (minimum TP of transferor)

(b) Transferee Division.
→ cost to be incurred on transferred units ✓
(a) modification or Alteration cost
(−) Benefits derived due to transfer (✓)
(Savings in Purchase cost from outside) ✓ (maximum price that can be paid by transferee)
(B) ✓

Net Incremental cost (A+B)

If +ve → i.e cost is −ve, transfer should take place.

Technique 2 : Equilibrium condition.

(i) MR = Additional Total revenue per add^{n} units

$= \frac{\Delta TR}{\Delta \text{units}} = \frac{d(TR)}{dx}$.

(ii) MC = Additional TC per additional unit

$\frac{\Delta TC}{\Delta \text{units}} = rc/\text{units}$.

↳ used in breakup of semivariable cost).

(iii) MR = MC, solve for "x"

For maxim.

(iv) Slope of MC > Slope of MR.

Whenever a division manufactures more than 1 product, then MC is a key factor. (And contribution / Rs is used for ranking purposes).

Basics of derivatives :-

(i) derivatives = a study of pattern of change

(ii) $\frac{d}{dx}(x) = 1$; $\frac{d}{dx}(A) = 0$.

(iii) $\frac{d}{dx}(5x) = 5$

(iv) $\frac{d}{dx}(x^3) = 3x^2$.

Applied with respect to profit maximisation.

(i) There must be an objective.

(ii) There should be sensitivity in variables.

Solution Technique :-

Basic ingredients : (i) Price equation showing relationship b/w demand & price

It is written as :-

$y = a - bx$ $\quad y$ = price

b = rate of change.

x = demand

a = constant = price where demand is "0"

Technique (1) : • Formulate profit equation "Z" is to indicate objectives.

$Z = TR - TC$

• Find $\frac{dZ}{dx} = \frac{\Delta \text{ Profit}}{\Delta \text{ Quantity}}$ = Inc. profit / Inc unit.

• $\frac{dZ}{dx} = 0$.

For tax computation → Both DT & IDT ; TP = ALP.
If ALP is not given, do not apply Taxation laws, TP = ALP.
DTAA should not be applied.
Be careful with currencies used in calculation & currency required to be mentioned in solution. If nothing is mentioned use Group ka currency.

Transfer pricing with International Transactions effect.

Evaluation of transfer from group's viewpoint.

Particulars — Amount ₹.

Transferor : Cost to be incurred. ✓
(+) Contribution Lost due to ✓
Transfer
Transfer Revenue @ TP. ✓
Net ₹ before tax due to ✓
Transfer
(-) Tax to be paid due to (✓)
Transfer @ ALP
Net Incremental ₹ due to
Transfer (A). ✓

Transferee : Transferred Input used @ TP ✓
(+) Cost to be incurred due to Transfer ✓
(i) Import duty due to Transfer
(ii) Shipping cost
(iii) modification cost
(-) Savings in PC ✓
Net savings / Net cost before tax ✓
(-) Tax paid / Tax savings due to
Transfer ✓
Net position after Tax. (B) ✓

∴ Net position of company = A + B.

Minimum TP = Cost to be incurred.
(+) Contribution Lost
(+) Tax to be paid @ ALP.

Maximum TP = Savings in PC
(-) Add' costs
(+) Tax Impact @ ALP.

Strategy formulation

(•) Strategy 1 : For group profit maximisation

(•) " 2 : " Borrowers " "

(•) " 3 : " Transferees " ".