

Module 3 Tip

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Discussion: Additional readings

http://www.mheducation.ca/college/hiltoncost/graphics/hilton1cmh_student/slideshow/sld20.pdf

Hiemann, M. and Reichelstein, R. The Dual Role of Transfer Prices in Multinational Firms: Divisional Performance Measurement and Tax Optimization. The European Financial Review.
<http://www.europeanfinancialreview.com/?p=1377>

PWC. (2012). Transfer Pricing.

<http://www.pwc.com/us/en/search.html?searchfield=transfer-pricing&pwcGeo=US&pwcLang=en&pwcHideLevel=0&pwcSiteSection=>

Slideshare. (2011). Global Management Accounting. <http://www.slideshare.net/costmgmt/issues-in-global-management-accounting-transfer-pricing>

Value Based Management.net. (n.d.). Economic Value Added (EVA).
http://www.valuebasedmanagement.net/methods_eva.html

Case 3: Compute purchase costs of A and B under the current arrangement. Then compute purchase costs of A and B under the proposed arrangement. Use the format given in the assignment.

Transfer price from C is purchase price for A and B. Transfer price is sale price for C. The difference between C's sale price and variable costs is C's contribution margin.

Thus, you will be calculating C's contribution margin under the current arrangements and the proposed arrangement.

The sum of the results from the current arrangement – The sum of the results from the proposed arrangement = the final answer.

Explain the computations in one page.

Essay: Essay question is simple. Please look beyond the generic websites such as Investopedia and Wikipedia. I encourage you use the university library and/or Google books. Credible references are required for a good grade.

SLP 3: Follow the bullet points. Explain how your SLP 1 organization is organized at present. You may include an organization chart. Describe the functions as per the bullet point 2. The third bullet point is theoretical. Do research and use credible references.

Module 3 - Home

TRANSFER PRICING AND RESPONSIBILITY CENTERS

Modular Learning Outcomes

Upon successful completion of this module, the student will be able to satisfy the following outcomes:

- Case
 - Evaluate transfer pricing alternatives.
- SLP
 - Evaluate role of responsibility centers.
- Discussion
 - Analyze modern managerial accounting measurements.

Module Overview

Transfer Pricing Policies

The fundamental objective in setting transfer prices is to motivate managers to act in the **best interests of the organization, and not just their division**. A good transfer price is one that encourages division managers to do whatever is in the **best interest of the entire organization**.

There are **three primary approaches** to setting transfer prices, namely (1) negotiated transfer prices, (2) transfers at market price transfers, and (3) transfers at cost (or cost plus set profit) to the selling division.

The objectives of **domestic** transfer pricing include:

- Creating greater divisional autonomy.
- Providing greater motivation for managers.
- Enabling better performance evaluation.
- Establishing better goal congruence.

The objectives of **international** transfer pricing include:

- Lowering taxes, duties, and tariffs.
- Lowering foreign exchange risks.
- Improving competitive position.
- Improving relations with foreign governments.

Module 3 - Background

TRANSFER PRICING AND RESPONSIBILITY CENTERS

Required Background Material

The following seven presentations introduce different aspects of transfer pricing and responsibility centers.

WITT. (2010, Oct. 12). Business Activities – Concepts. [Video file]. Retrieved from <https://www.youtube.com/watch?v=GKShT1pWaeA>

Boyd, K. (2010, March 28). Management Accounting 16: Transfer Pricing [Video file] Retrieved from the playlist at <http://www.youtube.com/watch?v=z4fv9gEp-rY>

Kafafy, M.G. (2013, Aug. 2). Responsibility Centers for Business Excellence. {video file}. Retrieved from <https://www.youtube.com/watch?v=VtbyaMoP8zc>

Khan Academy. (n.d.). Transfer Pricing and Tax Havens. [Video file]. Retrieved from <http://www.khanacademy.org/economics-finance-domain/core-finance/taxes-topic/corporate-taxation/v/transfer-pricing-and-tax-havens>

Scribd. (n.d.). Transfer Pricing. Retrieved from <http://www.scribd.com/doc/27512064/Transfer-Pricing>

Go to the online textbook for more detail and additional videos.

Walther, L. (2014). Chapter Twenty-One. Budgeting: Planning for Success. Retrieved from <http://www.principlesofaccounting.com/>

Optional Resources

Slideshare. (n.d.). Global Management Accounting. Retrieved from <http://www.slideshare.net/costmgmt/issues-in-global-management-accounting-transfer-pricing>

Stuart, A. (2009). Transfer Pricing: A World of Pain. CFO. Retrieved from http://www.cfo.com/article.cfm/14292573/c_14292723