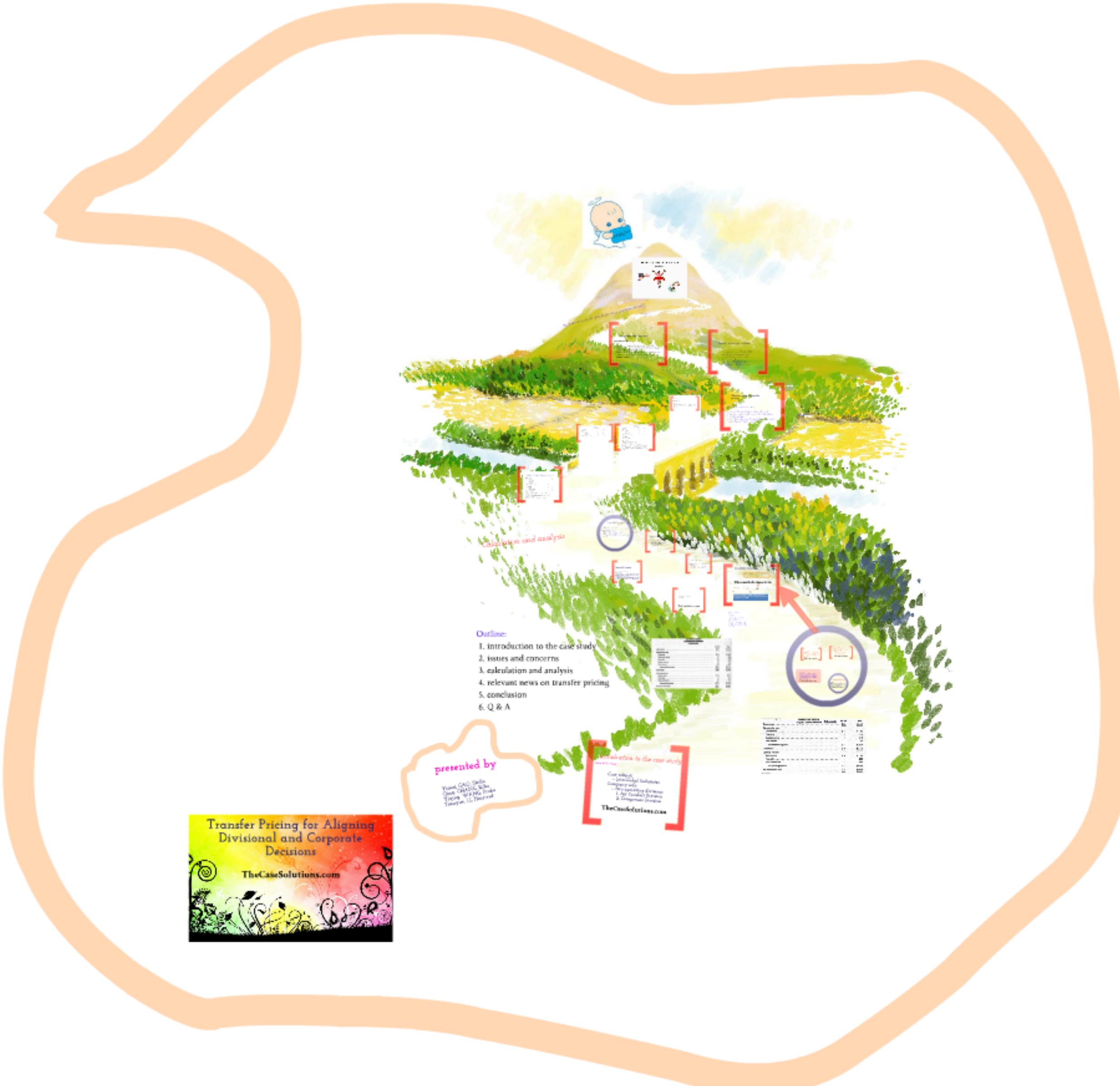
Transfer Pricing for Aligning Divisional and Corporate Decisions
TheCaseSolutions.com
Outline:
1. introduction to the case study
2. issues and concerns
3. calculation and analysis
4. relevant news on transfer pricing
5. conclusion
6. Q & A
presented by
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Transfer Pricing for Aligning Divisional and Corporate Decisions

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Introduction to the case study

presented by Yimei

Case subject:
-- InterGlobal Industries

Company info:
-- two operating divisions
1. Air Comfort Division
2. Compressor Division

InterGlobal Industries

Case scenarios:
Scenario 1#
Without internal transactions between the Air comfort Division and the Compressor Division. Is it beneficial for the Air Comfort Division to have a 5% deduction in the selling price since market researches indicated the sales volume would increase by 16% without any rise in fixed costs.

Scenario 2#

Independently to Scenario 1#, assume the Air Comfort Division needs 17400 units. Should the Compressor Division sell that amount of compressors to the Air Comfort Division at the price of $50 with a decreased cost of direct material by $1.5 per unit, and no variable selling cost incurred?

Scenario 3#

Refer to scenario 2#, this time, the top management specified $50 as the transfer price. Is this decision beneficial to the company as a whole?

Scenario 4#
If the company is determined to set the price at $50, is it a goal-congruent transfer price, and will it harm any subunit in the case?

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InterGlobal Industries

Full Capacity: 75000 units   64000 units   = 11000 units

$100

Outside supplier ← Air Comfort Division ← Compressor Division → Market

$70

17400 units

$50

If compressor division supplies compressors to air comfort division, then it has not enough capacity for the supply amount of 17400.

Issues and Concerns

- Keywords:
  - Management control
  - decentralization
  - Transfer pricing